

Multinationals and the Growth of The Singapore Economy

HAFIZ MIRZA

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MULTINATIONALS AND THE GROWTH OF THE SINGAPORE ECONOMY

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**Edited by
Chris Dixon and David Drakakis-Smith**

PREFACE

All books are generated by social endeavour and I thankfully acknowledge the many academics, researchers, journalists, government departments and international organisations whose efforts have made this book possible. At a directly personal level my path has been smoothed by many people of whom I would especially like to mention: John Sparkes for his eagle-eyed proof-reading; Peter Buckley for his encouragement; Linda Naylor and her colleagues at Word Express for the preparation of the typescript - without too many grumbles about my handwriting; Sylvia Ashdown for typing earlier versions of some chapters - also without too many grumbles; Gul Chotrani, Patrick Yang, K.W. Koh, Doug Sikorski and K.S. Yeoh for their hospitality and help in Singapore itself; librarians Carol McLaren, Wendy Small, Neil Hunter and two who have gone AWOL for the dirty work; Peter Sowden for his considerable support in preparing this book; Sotos Papadopoulos for the entertainment; and Naina, of course, for everything.

A few general points about style and the use of information and data in this book are worth mentioning here:

In order to conserve space and make passages readable I have occasionally adopted a didactic style and this is particularly the case in chapter five. However, all statements are justified by data, notes and references and the reader is directed to these.

I seldom describe tables at length in the text because this is often superfluous; and it is worth studying them independently, especially since most are as comprehensive, analytical and readable as possible. Most of the tables are based on my own calculations and I have endeavoured to explain the

Preface

methodology where necessary, although I would be happy to answer specific queries. Incidentally, though many statistics produced by the Singapore authorities are believed to be suspect (see table 5.8, for example) I have found that they can be quite revealing nevertheless.

All values in this book are expressed in US\$ and conversions from other currencies are based on average exchange rates calculated by the IMF and published in its International Financial Statistics yearbooks.

Most definitions are to be found in the notes at the end of each chapter and the index therefore refers to these as appropriate. Acronyms are explained in the index.

Chapter two was written before the December 1984 general election and I have resisted all temptations to alter it. The election is, however, referred to in chapter six. Incidentally, the PAP backlash against those who voted for other parties continues to gather pace. In early April, 1985, for example, the government announced that PAP-held districts would get priority in housing maintenance.

Finally, my analysis of the Pacific Community concept, TriCom and the trilateral carve-up of the developing world (pages 214-221, 224-225) may appear paranoid, but I hasten to add that I am not alone! I am gratified to read that Kenichi Ohmae has come to similar conclusions. He was cited as believing, 'the big (Japanese, European and American) manufacturers are actually collaborating with each other; it would appear that the three powerful northern economies have actually divided the international market place among themselves.... Southeast Asia has gone to the Japanese, West Asia and Africa to the Europeans and Central and South America to the United States' (Far Eastern Economic Review, April 11, 1985, page 73.)

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Chapter One

INTRODUCTION

Singapore is one of the smallest countries in the world, with a mere two and a half million inhabitants and a surface area barely a third of Greater London's. Yet this smallness is belied by Singapore's increasingly significant role in the world economy. To begin with, as Table 1.1 illustrates, Singapore is one of a handful of countries whose extremely rapid rates of growth have earned them the label "newly industrialising countries" (NICs). Singapore itself has recorded average annual growth rates in excess of eight percent for two decades. In recent years this growth rate has exceeded that of the burgeoning Japanese economy, and has far surpassed the growth rates of all western industrialised economies. As a result, its 1982 GNP per capita of \$5,910 compared favourably with that of Ireland (\$5,150), Spain (\$5,430), Italy (\$6,840) and even the UK (\$9,660). (1,2)

The stern discipline and keen scrutiny of the government has helped ensure a consistent, smooth-running economy. In October 1984 Euromoney, basing its judgement on a number of key indicators (see Table 1.2), paid Singapore a considerable compliment by declaring that this resourceless, miniscule island-state had achieved the world's best overall economic performance over the period 1974 to 1984. Not unexpectedly an earlier issue of Euromoney, in the journal's assessment of country risk/credit ratings, ranked Singapore as the 15th least risky country: the best placing for any developing country bar Saudi Arabia; and ahead of industrialised countries such as Denmark, France and Italy.

A major consequence of Singapore's economic performance is the increasingly important role that it is playing in world trade. In 1983 Singapore's

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share of world merchandise (i.e. visible) trade was 1.2 percent (Table 1.1). This compared very favourably with the UKs equivalent figure of 5.5 percent, bearing in mind the UKs vastly greater population. (3). Similarly 1.5 percent of total world private invisible receipts in 1981 accrued to entities in Singapore; and, within this, 4.5 percent of all 1983 international banking activity was conducted by Singapore based banks. (4)

AN INTERNATIONALISED ECONOMY

Despite all the impressive facts mentioned above, however, Singapore is not an independent nascent capitalist economy. Since the mid-sixties multinational companies (MNCs) have flocked to Singapore, simultaneously compelled by competition and attracted by the benefits and inducements on offer. (5) This remarkable influx of foreign direct investment (FDI) has resulted in one of the few truly internationalised countries in the world. (6)

Table 1.3 evinces that foreign corporate and individual residents presently represent over a quarter of Singapore's GDP. (7) This overwhelming level of foreign involvement, unlikely to be repeated elsewhere, has been achieved in a mere two decades because of the massive scale of inward FDI, as illustrated clearly by Table 1.4. In recent years Singapore has received up to 4.6 percent of world FDI, and up to 14.6 per-cent of FDI destined for developing countries. In 1983 only two developing countries, Saudi Arabia and Brazil, received more FDI, with the latter barely ahead (3.6 percent of world FDI). The UK, another major recipient of foreign direct investment, received about 8.7 percent of the global total, but is a larger economy. (8) On a per capita basis the scale of FDI is truly remarkable: this island-state with only two and a half million inhabitants annually receives up to a half of all foreign direct investment in Asia, a continent which includes highly populated countries such as China, India, Japan, Indonesia, Pakistan and Bangladesh.

Multinational involvement is particularly intense in certain key sectors and industries, including manufacturing, banking and other services. These will be discussed in detail later, but Table 1.5 is indicative. Foreign companies finance the preponderant share of investment in manufacturing and are responsible for 60 percent of

Table 1.1: Singapore in an International Context.

Country ^a	GNP per capita (US\$)	Average annual growth rate of real GDP/GNP (percent)	Share of world trade ^b (percent)	Destination of manufactured exports (percent going to industry market economies)						
	1982	1960-70	1970-82	1984	1960	1970	1983	1962	1978	1981
Singapore	5,910	8.8	8.5	8.9	1.0	0.5	1.3	4	54	49
Hong Kong	5,340	10.0	9.9	8.1	0.6	0.9	1.3	63	83	77
South Korea	1,910	8.6	8.6	7.9	0.3	0.3	1.5	83	74	62
Brazil	2,240	5.4	7.6	3.6	1.1	1.0	1.3	60	53	43
UK	9,660	2.9	1.5	2.2	9.0	6.8	5.5	58	65	62
Japan	10,080	10.4	4.6	5.5	3.4	6.7	8.8	45	47	47
USA	13,160	4.3	2.7	6.7	17.4	15.1	12.1	48	58	54
India	260	3.4	3.6	6.5	1.1	0.7	0.5	56	52	51

Sources: World Bank, World Development Report, 1980 and 1984.

International Monetary Fund, Intnl. Financial Statistics Yearbook, 1984.

OECD, Economic Outlook, July 1984.

South Magazine, February 1985.

Notes: a - Hong Kong, South Korea, Brazil and Singapore are four of the ten ex-so "newly industrialising countries." b - Exports of each country as a proportion of total merchandise exports of all non-socialist countries.