

Singapore assessing the impact of the regionalization strategy



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Has the regionalization strategy succeeded in sustaining Singapore's economic competitiveness in Asia for the period from 1995 to 2010? Explain your answer with supporting evidence.

The formulation of national strategies to leverage upon global resources for economic development has always been part and parcel of Singapore's drive to engender continued economic growth since independence in 1965, based upon the reallocation of economic resources via the 'Developmental State Model' (Evans, 1995). To this end, the Singapore government engaged in foreign direct investment (FDI)-oriented growth models from the 1960s to the 1990s, investing in education, healthcare, and infrastructure to achieve economic growth and enhance the country's economic competitiveness through the creation of a secure and pro-business environment. (Yeung, 2001) State investment on infrastructure and human capital was also seen as a means of benefiting from 'developmental effects' such as the generation of employment, earning of foreign currency, and transfer of technological or managerial expertise (Chang, 1999).

The subsequent onset of globalisation and advances in information and communication technologies (ICT) from the 1980s onwards led to structural changes among the economies of the developed world, necessitating a shift from labour-intensive, low value-added manufacturing towards high-tech, high value-added industries and financial services. At the same time, several governments in the region, including those of Malaysia and Indonesia, sought to liberalise their economies and capitalise on lower average labour, land, and raw material costs in order to attract foreign investors (Tongzon, 1998), emulating the FDI-oriented strategies adopted previously by the economies of Singapore, Taiwan, and Hong Kong. By 1990, rising labour and

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land costs in Singapore had led many transnational corporations to relocate their lower value-added operations to the regional newly-industrialising economies (NIEs), where overall operating costs were lower by as much as 75%. (Kumar & Lee, 1991)

The Singapore government's response vis-à-vis this rising competition for capital investment in the industrial and manufacturing sectors was to ensure Singapore's continued relevance in the new global marketplace despite her resource constraints and limited domestic market (Singapore Economic Development Board (SEDB), 1995a) by implementing new national strategies for economic development, marking the onset of the 'regionalisation strategy', aimed at creating an external economy through participation in the dynamic growth opportunities of regional economies in the Asia Pacific. (SEDB, 1995b). This essay aims to demonstrate that the regionalisation strategy has succeeded to a large extent in sustaining Singapore's economic competitiveness in Asia for the period from 1995 to 2010, given its central role in facilitating Singapore's transition from an export-oriented manufacturing centre to a knowledge-based economy and global business hub in the Asia Pacific, although it should be recognised that these regional initiatives do not reduce Singapore's external dependence but instead augment her economic vulnerabilities.

Regionalisation 2000

To harness external economic space and overcome local supply-side constraints (Regionalisation Forum Proceedings, 1993), the concept of Regionalisation 2000 was introduced in the 1990s to encourage greater investment and business in the Asia Pacific region, rationalised by the <https://assignbuster.com/singapore-assessing-the-impact-of-the-regionalization-strategy/>

liberalisation of foreign investment controls occurring in large Asia Pacific markets such as China, Vietnam, and Indonesia, and by the high growth rates being achieved by these economies. (Okposin, 1999) Explicitly designed to enhance Singapore's competitiveness within the regional and global economies (Wong & Ng, 1997) given Singapore's decreasing comparative advantages in the industrial and manufacturing sector due to its significantly higher labour, land, and raw material costs vis-à-vis the Asian NIEs, Regionalisation 2000 consisted of programmes for creating a knowledge- and service-based economy via four main regional initiatives comprising regional headquartering, regionalisation of local enterprises, regional investment, and regional industrialisation, with regional investments and regional industrialisation projects constituting the major transnational aspects of Singapore's regionalisation drive.

According to the Economic Development Board (1995),

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

The regionalisation strategy should therefore be conceptualised as an economic programme explicitly designed to carve out a new economic niche for sustaining Singapore's competitiveness and relevance, particularly during a period when its former economic strength in manufacturing was being

eroded by rising competition with Asian NIEs and structural changes in the world economy. In this regionalisation drive, as in prior economic development programmes, state intervention and collaboration played an important role, with the government's regional headquartering and regionalisation of local enterprises programmes representing instances of state intervention within national boundaries.

Construed as “ the twin objectives of further internationalizing Singapore's indigenous firms and assisting the transnational restructuring and cost-competitive endeavours of hosted foreign TNCs in an adaptive context” (xxx), the government aimed to encourage foreign and local enterprises to invest and establish business ventures in the region, using Singapore as a headquarters for high value-added operations such as product development, customer support, and financial services. To this end, the government has invested in institutional infrastructure and the enhancement of local factors of production such as workforce quality (Ho, 2000), offering tax incentives and supporting services in its self-conceived role as stakeholder, facilitator, and partner (Perry & Yeoh, 2000) to strengthen the competitive advantages of transnational corporations and domestic enterprises in their outward expansion into the region.

To complement regional headquartering and the regionalisation of local enterprises, regional investment and regional industrialisation programmes were introduced to further facilitate Singapore's embrace of economic globalisation through investment-driven economic growth (Porter, xxx) and economic restructuring through the relocation of local low value-added industries to Singapore-managed industrial parks in the region. Noting how <https://assignbuster.com/singapore-assessing-the-impact-of-the-regionalization-strategy/>

some transnational corporations had been reluctant to relocate operations from Singapore's secure business environment to the emerging NIEs due to a scarcity of high-quality industrial infrastructure and management (Kumar & Lee, 1991), the Singapore government sought to build and manage industrial parks across Asia at locations such as Batam in Indonesia, Suzhou and Wuxi in China, at Bangalore in India, and in Thailand and Vietnam, combining Singapore's expertise in industrial development with the low cost of regional land, labour, and raw materials, whilst maximising the use of savings and state revenue through investment in regional investments to further profit from the economic growth in Asia.

Serving as interesting examples of government intervention outside of national boundaries, given their transnational nature, the government's intention to export Singapore's expertise in industrial infrastructure development across the region (Perry, 1995) is therefore implicit in the regionalisation strategy, promoting regional economic linkages and the concept of Singapore Incorporated based upon close cooperation between the Singapore government and a wide range of Singapore business entities.

Has the regionalization strategy succeeded in sustaining Singapore's economic competitiveness in Asia for the period from 1995 to 2010? Explain your answer with supporting evidence.

Regionalisation 2000- A Success?

According to the Singapore Department of Statistics (2011), the first 15 years of the regionalisation drive's implementation from 1995 to 2010 was characterised by overall strong GDP growth, from S\$124, 581. 8m in 1995 to

S\$284, 560. 7m in 2010, with Singapore registering double-digit growth in 2010 from the previous year. Negative economic growth, however, occurred in the years 1998, 2001, and 2009, following poor regional or global economic performance, and this is attributable to Singapore's vulnerabilities and dependence on external economies for economic growth.

In terms of real economic growth, the state's economic transition into a knowledge-based economy is evident from Figure 1, given the overall decreasing percentage share of manufacturing in GDP from the years 2000 to 2010, whilst business and financial services together account for approximately 22 percent of GDP as of 2010, on par with the percentage share held by manufacturing alone. FDI in Singapore has grown from strength to strength, pointing to a successful sustenance of foreign investment inflows by the government's regional headquartering strategies aimed at attracting high value-added industries and investment to enhance Singapore's niche as a global business hub in the Asia Pacific. From 1995 to 2005, FDI in Singapore more than tripled from S\$93b to S\$311b, representing an average growth of 13% per annum, with FDI in professional, technical, administrative, and support services gaining importance and increasing from 1. 7% to 3. 1%. (Singapore Department of Statistics (SingStat), 2007). Europe, Asia, and North America constituted important sources of FDI, accounting for up to 82% of the total, with Asian FDI more than doubling from S\$31b to S\$74b (SingStat, 2007).

Of this FDI, 87% was concentrated in diversified sectors such as financial and insurance services, high value-added manufacturing of pharmaceuticals, electronics, and petrochemicals, wholesale and retail trade, and hotels and
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restaurants, reflecting Singapore's attractiveness to foreign investors as a business hub (SingStat, 2007). It can be surmised, therefore, that Regionalisation 2000 has succeeded in this regard, ensuring Singapore's transformation into a regional business hub in the global market, sustaining its economic competitiveness in Asia through the creation of new economic niches in product development, customer support, and financial services for foreign and local enterprises.

The other transnational aspect of Singapore's regionalisation programme has, however, proved less successful. Direct investment abroad by Singapore has not managed to exceed levels of FDI in Singapore itself (Figure 3), indicating that the regional headquartering programme along with FDI were responsible to a large extent for Singapore's economic growth over the past 15 years. The onset of the Asian Financial Crisis in 1998, in particular, significantly negated the regional industrialisation, regionalisation of local enterprises, and regional investment programmes, causing many projects to suffer financial loss due to a severe contraction in demand for industrial products from both consumers and producers in the region. (Henderson, 1999) Still, despite no actual reports of the regional industrialisation programme being profitable (xxx), and the absence of verifiable information on Singapore's investment performance by Temasek Holdings and GIC in the long period spanning 1995 to 2010, it can be argued that the regional industrialisation programme was designed to supplement the domestic economy in the long run, since infrastructural projects require large initial investments of capital resources.

The regional industrialisation programme brought about positive economic benefits, not least for those companies which relocated their lower value-added operations to the regional industrial parks, facilitating Singapore's shift towards a higher-tech and higher value-added economy. In the case of the Batam Industrial Park, most of the enterprises that chose to occupy these it generally established additional units instead of shifting all operations overseas, and also tended to upgrade the remainder of their operations in Singapore (Kumar & Lee, 1991) Furthermore, investors located in Singapore-developed industrial parks were reported to be highly satisfied with the operation and management of these industrial parks, especially in terms of cost savings (Kumar & Lee, 1991). The regional industrialisation and regionalisation of local enterprises programmes thus served as strategic outlets for transnational and local corporations to reduce operating costs and improve profit margins, sustaining Singapore's economic competitiveness and relevance in the region to a large extent despite the limits of state intervention in transnational business environments. Instead of focusing solely on profits generated, a long-term view of Singapore Inc. indicates that it is built upon strong business fundamentals, as exemplified by the sound infrastructure and superior administration of the regional industrial parks. These offer the potential of future profits for the Singapore government in times of strong manufacturing demand for industrial products, having proven its feasibility based on the high take-up rate of industrial space in Singapore-developed industrial parks prior to the crisis, and growing demand for industrial units after 1999 (xxx).

Evaluating Regionalisation 2000- A Success to a Large Extent

Singapore's regionalisation drive has therefore exposed her external dependence and vulnerabilities with regards to the external economic environment, which most negatively affected the regionalisation programme, rather than failings in the strategy itself. In contrast to the domestic success of the regional headquartering programmes in attracting FDI to Singapore, the experience of Singapore's regionalisation strategy overseas has shown that the achievement of national competitiveness in the global economy cannot be brought about by the state's policies and support alone, with the external environment and availability of global opportunities playing an equally important role, given the state's limitations in economic, political, and social resources, and factors beyond its control in the regional economy and investor confidence.

The Suzhou Industrial Park, in particular, has often been alluded to as an example of a foreign venture gone wrong, with the Singapore government divesting its ownership and management of the Park to the Suzhou municipal authorities. Much media attention has also been devoted to the financial losses incurred by Temasek Holdings in foreign investments and acquisitions, and these notable examples further demonstrate that the success of Singapore's regionalisation drive does depend to a large extent on international economic cycles. The regionalisation strategy, though, has succeeded to a large extent in sustaining Singapore's economic competitiveness in Asia for the years 1995 to 2010, mainly due to its success in ensuring Singapore's continued relevance in the global economy by

exploiting new economic niches. The overseas regionalisation initiatives hold the promise of success given their strong fundamentals, and possess potential for much greater returns, if not much greater risks, and are instrumental in Singapore's embrace of economic globalisation if she desires not to be out-competed by NIEs in the region. Indeed, the main thrust of Singapore's economic development since independence has been to thrive in change, and the overall success of the regionalisation programme is reflected in Singapore's been ranked the world's easiest place to do business. Singapore, too, is ranked among the top few when it comes to cities with best investment potential, foreign trade and investment, business legislation and efficiency, quality of human capital, and minimal corruption. (SEDB, 2011)

To further sustain and improve its regional economic competitiveness in the years ahead would require Singapore to further improve its attractiveness to foreign FDI, given its success so far, particularly in the services sector, which is still relatively underdeveloped, and regional tourism, which is also seeing success since the opening of the two Integrated Resorts, with overall visitor numbers to Singapore increasing and reaching a peak of approximately 11m in 2010 (SingStats, 2011), indicating its potential. The years from 1995 to 2010 have also afforded the government extensive opportunities to adapt and modify its transnational investment strategies for maximal success in differing socio-political environments, allowing future success.

Conclusion

Singapore has, over the years, proven itself capable of mobilising economic, social, and political resources to create economic space, despite its resource

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constraints and small domestic market. Through regionalisation, it has managed to tap into the lower land, labour, and raw material costs of neighbouring NIEs in the region, ensuring its economic dominance through export of the Singapore Inc. concept throughout Asia and the world, making Singapore a top choice for transnational and local enterprises to do business today. The regionalisation strategy has therefore succeeded to a large extent in sustaining Singapore's regional economic competitiveness since its onset, despite the cultural and political complexities of external economies diminishing the efficiency and commercial viability of overseas ventures in tandem with the uncontrolled external environment. These difficulties, however, are outweighed by the potential successes these ventures can bring if the Singapore government manages to learn from its errors, successfully creating an external economy which serves as a launching pad for Singapore into the global economy.