SINGAPORE'S RESPONSES TO THE ASIAN CRISIS AND THE CHALLENGES OF GLOBALISATION

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Abstract

The currency and financial crisis that erupted in Thailand in July 1997 and swept through the East Asian region put an abrupt end to the East Asian Miracle and exposed the region to the downside of globalisation. These consequences such as vulnerability to volatile short-term capital flows, weakness of domestic financial and banking systems, and shortfalls in economic management and corporate governance are being addressed slowly. The issue of volatile short-term capital flows awaits reform in the international financial architecture so that globalisation can be a boon and not a bane for individual economies. A key question is when East Asia's economic dynamism can be restored. Fortunately, many of the strengths that contributed to the East Asian Miracle—the work ethic, thrift and savings, education and skills development, and social cohesion—have remained largely intact in most countries. It is necessary to build on these strengths to meet the challenges of recovery and future growth in a global economy.

This paper examines Singapore's macroeconomic and financial indicators prior to the onset of the regional financial crisis, the impact of the crisis on the Singapore economy, and Singapore's responses to the crisis as well as to the longer-term challenges of globalisation.

Despite strong macroeconomic and financial fundamentals, Singapore was sucked into the regional financial crisis. General business and consumer sentiment in Singapore's domestic economy has been adversely affected by the regional downturn and the Singapore growth rate has plummeted. Nonetheless, freed of the "fire-fighting" tasks that have confronted most regional governments during 1998, the Singapore government has been able to focus more attention on a longer-term strategy to remain competitive in an increasingly globalised world. A key component of this strategy is to ensure Singapore's competitive edge over regional countries when they emerge from the crisis with more competitive financial and corporate sectors.

Released in November 1998, the report of the Committee on Singapore's Competitiveness (CSC) proposed a number of short-term strategic responses to the crisis: cost- and tax-cutting measures to reverse deterioration in Singapore's wage competitiveness; measures to maintain corporate access to working capital by broadening eligibility and coverage of the existing Local Enterprise Finance Scheme; measures to promote and support skill development and upgrading; support for trade development and marketing to encourage local companies to explore and penetrate new, overseas markets; and additional funding and incentives to promote international marketing and to attract foreign companies to Singapore.

Singapore has begun to formulate a response to the longer-term, broader challenges of globalization. The Financial Sector Review Group recommended steps to lighten the regulatory environment and increase financial disclosure aimed at promoting Singapore's development as a financial centre. In addition, the CSC recommended eight key long-term strategies: promoting manufacturing and services as the twin engies of growth; strengthening external linkages; building world-class companies; strengthening local small and medium-size enterprises; developing human and intellectual capital; leveraging on science, technology, and innovation; optimising resource

management; and using government as a facilitator of business.

On the threshold of the 21st century, the Singapore economy has come a long way. It has achieved political stability, social cohesion, a high quality of life, and a highly competitive economy. It has been driven by a strong sense of political and economic vulnerability arising from its geopolitical position in Southeast Asia and its small physical size. The pursuit of a stakeholder society and good governance have enabled Singapore to achieve its goals. For the next lap, with globalisation providing intense competition, Singapore's continuing economic prosperity will depend largely on its ability to compete on capabilities rather than costs. The vision is a knowledge-based economy, and many strategies and policies are being developed and implemented to achieve this objective, including a large continuing role for foreign MNCs and growing importation of foreign talent to enable Singapore to grow beyond its physical and demographic limits. The political leadership and policymakers have the challenging task of convincing the Singaporean business community and the Singaporean workforce that this is a shared vision and a positive sum game as well as convincing highly mobile international investors and international professionals to put their stakes in Singapore.