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Globalization—Not a One-Size-Fits-All Panacea: A Critical Assessment of the Globalization Policies of Malaysia and Singapore

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Executive Summary

The analysis of the experiences of Malaysia and Singapore supports the following key lessons on globalization:

1. To be successful, it needs to be adapted to each country's specific sociopolitical circumstances (in terms of Malaysia and Singapore, the different circumstances include level of natural resources, population makeup and income disparity, and level of economic and institutional development).
2. It is not a cure-all that guarantees economic success (Malaysia needs to ensure continuing racial harmony; Singapore needs innovation and entrepreneurship to achieve sustainable growth; and both need to move up the value chain, focus on their competitive advantages and build world-class or strong regional companies).
3. It is both a state and a process. Therefore, countries should adopt the appropriate pace at which to open up their economy, although there is evidence that a gradual approach is preferable.
4. Government intervention is necessary, at least at the onset, to create a stable environment and to put in place the various features of an open economy as envisaged by the Washington Consensus.

1. Introduction¹

This paper aims to provide support to the growing belief that countries must adapt the globalization process to their unique circumstances and objectives to maximize the benefits of globalization. To do so, the paper analyzes the development of two similar and yet different Southeast Asian neighbors and their respective globalization policies—Malaysia's pragmatic globalization and Singapore's total globalization. The paper then attempts to demonstrate that both nations, like many others before them, have achieved economic success through a measured transformation into a stable and open national economy, the features of which are now encapsulated in what is commonly known as the Washington Consensus (WC) (Williamson 2000). The key tenets of the WC are as follows:

- Fiscal discipline
- Prioritization of public expenditure in sectors offering both high economic returns and the potential to improve income distribution
- Tax reform to lower marginal rates and to broaden the tax base
- Interest rate liberalization
- Enforcement of a competitive exchange rate

¹ The opinions and analyses in this paper are solely those of the authors and do not reflect the views or opinions of, or constitute advice from, their current employers.

- Trade liberalization
- Foreign direct investment liberalization
- Privatization of enterprises
- Deregulation to abolish barriers to entry and exit in terms of foreign participation
- Property rights

The performance of Malaysia's and Singapore's globalization policies are evaluated, with an aside on the resilience of both countries during the Asian crisis, the most serious challenge to both countries' development in recent years. Finally, the paper concludes with possible recommendations for both countries to ensure sustainable growth and development.

It should be noted that the paper is not intended to be a 'state of the nation' report for Malaysia and Singapore. It therefore does not seek to provide a detailed analysis of every issue raised. Rather, the purpose of the paper is to show, through the experiences of both countries, that globalization is not a one-size-fits-all panacea.

2. Country Analysis: Malaysia

2.1. A Brief History of Malaysia's Development

Malaysia today is one of the most advanced emerging markets in the world. With average real gross domestic product (GDP) growth of 6.7 percent per annum between 1970 and 1990, it grew further by 9.2 percent per annum from 1990 to 1997. Subsequent to the Asian crisis, Malaysia's GDP declined but recovered to its present per capita level of approximately U.S.\$3,610. It has also transformed itself from an agriculture-based economy into one of the region's industrial powerhouses, housing the plants of the many of the world's top multinational companies. Manufacturing and services now make up over 80 percent of GDP, and manufacturing's share of total exports has increased from 22 percent in 1980 to 85 percent in 2000.

Malaysia has also advanced socially. Its population life expectancy in 1996 was higher than the East Asian and upper- to middle-income group,² while the proportion in poverty was less than 2 percent in 1997.³

In a *New York Times* on the legacy of Mahathir Mohamad as he stepped down as prime minister,⁴ Joseph Stiglitz, the 2001 Nobel laureate in economics, provided a good summary of Malaysia's progress: "It has been a remarkable transformation. They have

² World Bank, 2003.

³ United Nations Statistics Division, 2003.

⁴ J. Perlez, "Mahathir, Malaysia's autocratic modernizer, steps down," *New York Times*, November 1, 2003, late edition (East Coast).

attracted foreign direct investment, improved technologically and become a country that is helping other developing countries.”

2.2. Economic Model

In developing its economy, Malaysia has relied heavily on two WC tenets: trade and FDI liberalization. Emphasis was placed on developing the private sector as an engine of growth, with a significant role for foreign capital, to facilitate the country’s push toward export-oriented industrialization. This policy of export-driven growth and industrialization was coupled with significant government direction of the economy. In particular, the government utilized explicit economic equalization programs, such as the New Economic Policy (NEP) and later the National Development Policy (NDP), to reduce poverty and strike a balance between economic growth and equity.⁵ In recent years, Malaysia has also undertaken efforts to move up the value chain. As industrialization in the region has increased and competition has intensified, Malaysia has placed increasing emphasis on the development of such knowledge-based industries as information and communications technology as future bases of growth.

2.3. Experience with Globalization

As a nation that has experienced significant export-driven growth, Malaysia has embraced economic globalization. Today, it is one of the most globalized economies in the world, with an export/GDP ratio of 98 percent at year-end 2002 (BNM 2003b), among the highest in the world, and a ranking of 18th in the 2002 A. T. Kearney/*Foreign Policy* Globalization Index,⁶ second only to Singapore in Asia.

Malaysia’s drive toward economic globalization has been characterized by a national policy of pragmatic globalization, embracing the principles of globalization on its own terms and at its own pace and adopting them in areas of benefit while rejecting them in others. Rodrik (2000) provides a good elucidation of Malaysia’s approach to globalization: “The alternative perspective is one that views globalization as a means to an end, rather than an end in itself. It is a perspective that accepts that strategic use of international trade and capital flows is *part* of a development strategy, but appreciates that it does not substitute for it.”

⁵ The NEP (replaced by the NDP in 1991) was implemented following the racial riots of 1969, purportedly the result of imbalances in economic activity, income and poverty among the different races, particularly between the poorer Bumiputera (Malays and indigenous races) and the wealthy Chinese.

⁶ The index measures globalization based on four broad areas: (1) economic integration, (2) cross-border nature of personal contact, (3) technology and Internet connectivity and (4) membership in international organizations.

2.3.1. Foreign Direct Investment

Nowhere is Malaysia's practice of pragmatic globalization more evident than in its attitude toward foreign direct investment (FDI). Concomitant with its economic-growth model, Malaysia has traditionally welcomed FDI through a series proactive policies designed to attract foreign investment, including a liberal foreign-equity policy (allowing 100% foreign-equity ownership in certain instances) and attractive tax incentives for strategic industries.⁷ FDI has therefore played a significant role in financing Malaysia's prosperity, accounting for the bulk of net private-capital flows into the country (see table 1).

	1991	1992	1993	1994	1995	1996
Malaysia	11.2	15.1	17.4	1.5	8.8	9.6
<i>Direct investment</i>	8.3	8.9	7.8	5.7	4.8	5.1
<i>Portfolio investment</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Other investment</i>	2.9	6.2	9.7	-4.2	4.1	4.5
Indonesia	4.6	2.5	3.1	3.9	6.2	6.3
<i>Direct investment</i>	1.2	1.2	1.2	1.4	2.3	2.8
<i>Portfolio investment</i>	0.0	0.0	1.1	0.6	0.7	0.8
<i>Other investment</i>	3.5	1.4	0.7	7.9	3.1	2.7
Thailand	10.7	8.7	8.4	8.6	12.7	9.3
<i>Direct investment</i>	1.5	1.4	1.1	0.7	0.7	0.9
<i>Portfolio investment</i>	0.0	0.5	3.2	0.9	1.9	0.6
<i>Other investment</i>	9.2	6.8	4.1	7.0	10.0	7.7
Korea	10.7	8.7	8.4	8.6	12.7	9.3
<i>Direct investment</i>	1.5	1.4	1.1	0.7	0.7	0.9
<i>Portfolio investment</i>	0.0	0.5	3.2	0.9	1.9	0.6
<i>Other investment</i>	9.2	6.8	4.1	7.0	10.0	7.7

Source : International Monetary Fund, 1997.

Nonetheless, it is important to stress that Malaysia's acceptance of globalization in this regard has not been unfettered. In accordance with the policy of pragmatic globalization, since 1974 it has placed limits on foreign ownership and control of companies or assets in companies. These limits have served to complement the efforts of the NEP and NDP to increase Bumiputera participation in equity ownership, professional employment and entrepreneurial ventures (Abu Bakar and Golam Hassan 2003). Cognizant of increasing regional competition for FDI and the need to balance externally and domestically driven growth, Malaysia has also recently announced measures to mobilize domestic sources of growth and reduce its economic dependence on FDI and the external sector (Ministry of Finance 2003).

⁷ The Malaysian Industrial Development Authority provides a complete list of available tax incentives on its Web site: "Investors' Guide," <http://www.mida.gov.my/invest.html>.

2.3.2. Capital-Market Liberalization

The practice of pragmatic globalization in Malaysia has also been very much in evidence in the capital markets. Fearing the destabilizing effects of hot-money flows, Malaysia has traditionally discouraged short-term capital flows into and out of its economy. For instance, Malaysia has prevented its private sector from borrowing overseas unless the latter demonstrated that they were earning foreign exchange. As a result, Malaysia has had lower foreign-bank debt and portfolio inflows than its regional peers (see table 1).

Another form of financial restriction undertaken by Malaysia has been its resistance to entry by foreign institutions into its banking sector. Prior to the reinstatement of the banking license to Bank of China in 2000, Malaysia had not granted a banking license to a foreign institution in decades. This reflected the authorities' fear of foreign-banking domination and a concomitant lack of financing for the local small- and medium-scale enterprises that are vital for economic growth (Stiglitz 2003).⁸

Perhaps the most vivid example of Malaysia's practice of pragmatic globalization is provided by its imposition of selective capital controls in September 1998, during the Asian crisis. In response to the financial turmoil sweeping the nation, particularly intense currency speculation, a rapidly depreciating exchange rate (approximately 50% in six months) and banking instability, the government imposed selective restrictions on capital-account transactions and pegged the exchange rate (BNM 1998). At the same time, it reduced interest rates, which had been hiked earlier to defend the exchange rate, and embarked on reinflating the economy. The results of the controls are examined in section 5.1.2.

2.3.3. Technology

In contrast to the financial sector, an area in which Malaysia has fully embraced globalization is technology. The nation's desire to position itself as a global information and communications technology (ICT) and multimedia hub has meant a very high degree of liberalization in issues related to technology (Mohamed 2001b). In particular, Malaysia has committed significant fiscal and nonfiscal incentives to attract world-renowned ICT companies to its Multimedia Super Corridor, a swath of land equipped with high-tech infrastructure that was designed as a regional hub and test bed for global IT companies. Perhaps the clearest indication of Malaysia's liberal stance in relation to ICT and its understanding of the need for free information flow in ICT development is its decision to impose almost no censorship on Internet content.

2.3.4. Labor, Knowledge, Environment and Culture

Malaysia has traditionally been relatively liberal regarding foreign labor. Its rapid economic growth has necessitated the increasing use of foreign menial labor in the manufacturing and

⁸ "Capital market liberalization and foreign direct investment," lecture 6, Stiglitz and Greenwald (2003).

construction sectors, particularly as the nation has prospered and Malaysians have moved on to higher-paying jobs. As at year-end 2000, there were approximately one million immigrant workers legally working and living in Malaysia, many of them from Indonesia and the Philippines. Given Malaysia's population of only 24.5 million in 2002—and that there are reportedly also 1 million illegal immigrant workers in Malaysia—the number of immigrant workers is not inconsequential and has in fact resulted in a certain degree of social disturbance in the country (for further elaboration, see section 5.1.2). In moving forward, Malaysia has shown a desire to increase its use of foreign skilled labor, which is consistent with its desire to move up the production value chain. In this regard, a “brain gain” program was implemented to attract “Malaysian expertise and talents from overseas as well as foreigners with the requisite skills” (Mohamad 2001a). One example of the effort to obtain foreign expertise is the granting of automatic approvals to employers for the recruitment of highly skilled workers where no local expertise is available.

3. Country Analysis: Singapore

3.1. A Brief History of Singapore's Development

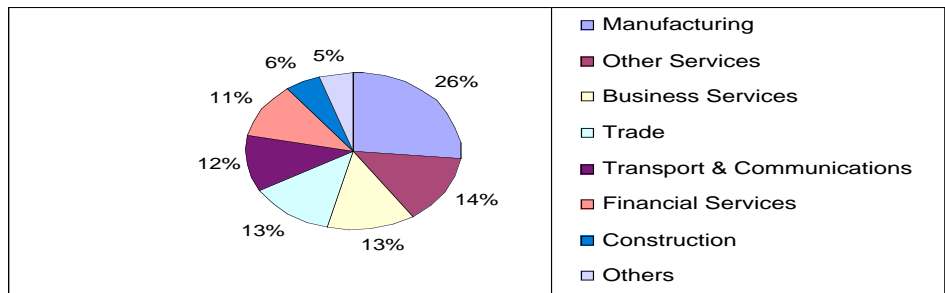
In the 38 years since its independence from colonial rule in 1965, Singapore has developed rapidly to become one of the wealthiest nations in Asia. Between 1965 and 2001, its real GDP grew by 8.4 percent per annum, resulting in one of the highest GDP per capita in the world—about U.S.\$21,162 in 2002.⁹ At \$19,697, Singapore has the highest foreign reserves per capita in Asia and one of the highest in the world (cf. \$16,504 in Hong Kong, \$3,603 in Japan and \$246 in the United States) in 2002.

3.2. Economic Model

Today, Singapore is one of the most open and trade-oriented economies in the world. However, given its short history, small domestic market, complete lack of natural resources and advantageous geographical position, the government had initially adopted an economic model based on the following principles: (1) attract foreign investment and technology transfer, (2) focus on exports and trade facilitation, (3) build strong government-owned companies before privatization and (4) control monetary and fiscal policies to create a stable environment. The impact of these policies persists till today and is discussed in section 5.2.2.

⁹ Singapore Department of Statistics, “Key Stats,” <http://www.singstat.gov.sg/keystats/hist/gdp.html>.

Table 2. Singapore's 2002 GDP by Sector



Source: Singapore Department of Statistics.

With 26 percent of its GDP derived from manufacturing and with electronics being the largest component, Singapore is highly susceptible to downturns in global demand for electronics. Further, given China's growing dominance in global manufacturing, there is increasing pressure on Singapore (like Malaysia) to diversify or to move up the value chain.

3.3. Experience with Globalization

Singapore has clearly embraced total globalization, and the government has declared globalization as the first of five tenets of its new competitive strategy.¹⁰ In fact, Singapore is often recognized as one of the most globalized countries in the world: its ranking in the A. T. Kearney/*Foreign Policy* Globalization Index was first from 1999 to 2001, third in 2002 and fourth in 2003.

But globalization is as much a process as it is a state. In terms of process, Singapore has become synonymous with the gradualist approach to globalization. It has been said, "The Chinese say that in terms of sequencing their political and economic reforms, they look . . . at Singapore to decide what to do . . . with [Singapore's] very liberal economy and much less liberal political system, and think that is the way to go" (Niam 2002).

Regardless of pace, the authors believe Singapore practices total globalization, as the government constantly adjusts the economy toward greater globalization (unlike Malaysia, which not only controls the pace of globalization but also the degree).¹¹ It will be argued in section 5.2 that gradualism in some form is necessary for successful globalization. In terms of degree of globalization, Singapore is in fact exceptionally dependent on foreign trade. The total value of trade in goods (exports plus imports) was equivalent to 273 percent of GDP in 2002 (cf. under 20% in Japan and 98% in Malaysia) and is the

¹⁰ "New Singapore," a speech by Prime Minister Goh Chok Tong in August 2001.

¹¹ In a *Time* magazine article "The Lion City is no wounded tiger," Singapore's Deputy Prime Minister Lee Hsien Loong expressed the government's commitment to total globalization: "We have to change. . . . It is more than a tweaking. . . . What we want is a series of adjustments which will be cumulatively significant, but not an overnight change" (Ellis 1999).

highest among developed countries.¹² This total includes a large volume of reexport trade (47% of total exports in 2002).

3.3.1. Foreign Direct Investment

FDI is clearly extremely important to Singapore, even more so than to Malaysia (see table 3; cf. table 1).

Table 3. Foreign Direct Investment in Singapore

FDI Indicators	1975	1980	1985	1990	1995	2000	2001	CAGR 75-01
FDI (BoP, current US\$B)	0.29	1.24	1.05	5.57	8.79	5.41	8.61	14%
FDI, net inflows (% of GDP)	5%	11%	6%	15%	10%	6%	10%	

Source: World Bank Indicators.

Attracting FDI was one of the main ways in which the government was able to quickly create jobs for Singaporeans when it suddenly gained independence in 1965. As of year-end 2001, there are 6,000 multinational corporations operating in Singapore, with 60 percent having regional (Asian or Southeast Asian) responsibilities.¹³ While direct investment is more stable than portfolio investment, multinationals can still choose to withdraw direct investment in the long run. Given the evidence that multinationals—for example, Japanese companies—are moving their operations from Singapore and Malaysia to China,¹⁴ the government has realized that “the creation of ‘enterprising Singapore’ and international Singaporean companies [and] innovation” is key to Singapore’s relevance going forward (the second and third tenets of the national competitive strategy) (Tong 2001).

3.3.2. Capital-Market Liberalization

It is in capital-market liberalization that Singapore’s gradualist approach is most evident. First, it was only in 1999 that the government embarked on a five-year program to gradually open the banking sector to foreign competition (as compared to Malaysia, which is still limiting foreign participation in its financial sector). Second, it was only in 2002 that the government whittled down the restrictions under its currency noninternalization policy, which prevents nonresidents from borrowing Singapore dollars purely for speculation purposes. The two remaining restrictions are that (1) nonresidents have to convert Singapore debt or equity if used to fund overseas activity and that (2) banks cannot lend more than S\$5 million to nonresidents who intend to use it for speculation.¹⁵ This policy is

¹² The Economist Intelligence Unit, *Singapore country report*, October 30, 2003.

¹³ “Singapore bets on human resources,” *Korean Times*, April 26, 2002.

¹⁴ IMF Economic Forum, “Foreign direct investment in China: What do we need to know?” Washington D.C., May 2, 2002

¹⁵ Monetary Authority of Singapore.

intended to (1) protect a relatively small economy from speculative attacks and (2) manage the economy, particularly the competitiveness of its exports.

3.3.3. Technology

As measured by the A. T. Kearney/*Foreign Policy* Globalization Index 2003, Singapore is certainly very global in terms of Internet adoption and usage. However, in terms of use of capital and technology, Singapore's economic growth has been criticized as arising mainly from investment in economic inputs, which would necessarily increase output, and not from an increase in efficiency, which creates long-term growth (Krugman 1994). While official statistics have confirmed certain capital inefficiencies from 1970 to 1990, there has been a significant improvement in Singapore's employment of technology since 1990 (see table 4). However, Singapore's total factor productivity (TFP) from 1991 up to 2001 has declined to 0.94 percent (Wu and Thia 2002),¹⁶ which suggests that capital efficiency remains an issue.

Table 4. Comparison of Productivity of Capital/Technology Employed in Asian Countries

(1990–1998)	Singapore	Japan	Hong Kong	Taiwan	Malaysia
Investment rate ^a	35%	29%	29%	n.a.	40%
Return on U.S. non-oil manufacturing investment	29%	n.a.	19%	n.a.	17%
Return on U.S. services investment	19%	n.a.	19%	19%	19%
Incremental capital output ratio ^b	5	18	9	4	n.a.
Total factor productivity	1.9%	n.a.	0.2%	n.a.	n.a.

Source: Singapore Ministry of Trade and Industry.

^a Lower rate is preferred.

^b Lower ICOR implies greater efficiency.

3.3.4. Labor, Knowledge, Environment and Culture

It is estimated that almost a quarter of Singapore's population of 4.1 million consists of foreign workers, both professionals and basic laborers. While it is undeniable that Singapore has a very small local talent pool to draw from and there is evidence that diversity of top talents is beneficial for the Singapore economy,¹⁷ there has been significant dissatisfaction with this policy among the local population given the unemployment situation (4.7% in 2002, which was the worst in the last 15 years). Another problem with

¹⁶ This article also argues that the TFP measure should be adjusted for Singapore's special circumstances: (1) although there is 90 percent home ownership (approximately 70% of total housing), owners are prohibited from subletting entire government apartments, and (2) there is a heavy reliance on foreign workers, who by law can only work for a few years.

¹⁷ H. L. Teh, "Board diversity may be good for companies," *Business Times* (Singapore), November 15, 2003. A regression of board diversity in terms of foreign and/or female directors to the ROE and ROA of listed Singapore companies showed a positive relationship between board diversity and ROA ($p = 0.01$).

attracting foreign top talents to contribute to Singaporean companies is the risk of losing them and the resulting bad publicity.

4. Comparison of Both Countries' Approach to Globalization

How then can one distinguish between Malaysia's pragmatic globalization and Singapore's gradualist total globalization? Of course, there are many similarities between both countries' approaches, such as attracting FDI through tax holidays and subsidized infrastructure, implementing tariff exemptions, etc. However, as the historical and current evidence shows, Malaysia differs from Singapore in that the former accepts neither unrestricted capital mobility (e.g., capital controls) nor the lifting of all barriers to entry for foreign companies (particularly banks). Additionally, Malaysia utilizes affirmative action programs in order to accelerate economic equalization among the various races in its population.

Singapore, on the other hand, now appears committed to all the tenets of the WC, albeit at its own pace. Singapore's critics sometimes conflate the continued dominance of government-linked corporations (GLCs) in its economy with insinuations of political oppression. First, it must be noted that the WC does not explicitly mandate political freedom (the controversy about this concept is beyond the scope of this paper). Second, it is argued that WC recommendations, even if by implication, require only political stability, not complete political freedom. Therefore, Singapore does appear to strive for total globalization insofar as the government has committed to divesting GLCs "which lack a strategic rationale or the potential to grow into regional or international players" and to ensuring "ministries and statutory boards . . . avoid spawning companies to provide services which private firms can provide, and crowding out the private sector" (Singapore Ministry of Trade and Industry 2003).

In the final analysis, while the globalization approaches of both countries share some commonalities, they cannot be labeled similar.

5.0 Malaysia and Singapore: Assessment of Policy Performance

5.1 Analysis of Malaysia's Pragmatic Globalization

5.1.1. Likely Consequences of Current Policies

While most commentators agree on the success of Malaysia's pragmatic globalization with respect to trade and FDI, many have bet against its success with respect to the capital markets. Even today, some academics argue that Malaysia's restriction on foreign borrowing is not beneficial to the economy, as domestic borrowers may not benefit from the cheapest sources of funding. However, the area of Malaysia's globalization experience

that has attracted the most controversy is its implementation of selective capital controls in 1998 (see section 2.3.2). Labeled as a “pariah” and “odd man out” when it first implemented the controls (Sopiee 1998), Malaysia was expected to fail economically with foreign investors, both direct and portfolio, thus erasing the country from the radar screens of international investors. An article in *Forbes* magazine even stated that “foreign investors in Malaysia have been expropriated, and the Malaysians will bear the cost of their distrust for years,” while Morgan Stanley dropped Malaysia from its international index, stating that Malaysia would be permanently excluded from the index and that its previous inclusion had been a mistake in the first place.¹⁸

Even though many of the controls have since been eased, Malaysia has not admitted any wrongdoing on its part. It is therefore entirely possible that it could again implement antimarket and antiglobalization policies should the need arise in the future. Consequently, if the prophecies of the doomsayers in 1998 are to be believed, reductions in foreign investment and economic deterioration should have been—and indeed, should continue to be—observed. What then has been the reality?

5.1.2. Critical Evaluation of Policies

As was discussed in section 2.3, participation in the globalization process has benefited Malaysia significantly. GDP has increased considerably over the past 30 years, and growth is projected to remain sound—approximately 4–5 percent until 2008 despite the difficulties the country experienced during the Asian crisis.¹⁹ The country is also one of the most open in the world, with economic growth fueled by trade and labor flows together with sound FDI flows, which although reduced by the “China effect” continued to flow into the country even during the Asian crisis.

Reflecting the significant globalization of its economy, Malaysia is also fast becoming a favorite location of multinational corporations for regional manufacturing-related operations. As of mid-2003, the government had approved the establishment of 636 representative offices, 335 regional offices, 52 operational headquarters and 47 international procurement centers (Badarudin 2003a).

In terms of technology and knowledge, Malaysia has also achieved significant progress in moving up the value chain. Today, Malaysia is the exporter of most of the world’s Dell laptop computers and Intel high-end processors. And while the success of the Multimedia Super Corridor (MSC) is still a topic of debate, progress nonetheless continues, with increases in the number of approved MSC companies (1997: 94; 2003: 920), exports by

¹⁸ The *Forbes* comment and Morgan Stanley’s actions are cited by Kaplan and Rodrik (2001).

¹⁹ Economist Intelligence Unit, *EIU forecast: Asia and Australasia: 2003–08*.

MSC-status companies (1997: U.S.\$19 million; 2000: U.S.\$127 million) and MSC employment (1997: 2,190 workers; 2003: 21,000 workers).²⁰

However, policy effectiveness is often not as well tested in a good environment as it is in a bad one. In this regard, Malaysia's performance subsequent to the Asian crisis provides perhaps the best test of the efficacy of its pragmatic approach to globalization and of the economic resilience generated by this approach. Has the economy bounced back quickly? Has Malaysia reappeared on the radar screens of international investors? Would the international community continue to do business with a rogue country, a country with a record of pragmatic policy flip-flops?

Many studies have attempted to answer these questions, and increasingly the consensus is in the affirmative. For instance, Stiglitz has stated that the capital controls implemented by Malaysia allowed it to prevent the worst of the capital flight, regain its control over interest rates and stabilize the economy, which has experienced one of the fastest recoveries in the region.²¹ In addition, Malaysia has been left with a lower legacy of IMF debt, as it did not have to go to the IMF for assistance.

Similarly, Kaplan and Rodrik (2001) have documented the success of the capital controls in insulating the economy from large onshore/offshore ringgit interest-rate differentials. In particular, the controls allowed the authorities to prevent the outflow of funds that would have been attracted by high interest rates in Singapore to set accommodative interest rates for recovery and prevent a general collapse of the exchange rate. In the ensuing period of calm, Malaysia was able to successfully restructure its fragmented banking system and corporate-sector debt, putting many of its banks and corporations back on an even keel.²²

Thus, one view is that the capital controls enabled Malaysia to focus its scarce fiscal, political and administrative resources on strengthening its weak banking and corporate fundamentals without being distracted by undesirable policies required to conform to investors' biases.

Many, however, have attributed Malaysia's recovery to a broader recovery in the region rather than to capital controls, citing the simultaneous recovery of IMF-assisted Thailand and South Korea, which did not implement controls. In response, Kaplan and Rodrik (2001) showed that the Malaysian economic cycle had lagged behind those of Thailand and South Korea and that in September 1998 Malaysia's economy was

²⁰ For statistics on exports, see Miller (2001); for statistics on number of companies and employment, see "Malaysia's Multimedia Super Corridor enters phase two," *Business Times* (Singapore), September 6, 2003.

²¹ "Capital market liberalization and foreign direct investment," lecture 6, Stiglitz and Greenwald (2003). This argument is also made in Stiglitz (2000).

²² Between 1998 and 2002, a banking-sector merger program reduced the number of domestic banking institutions in the country from 54 to 10.

deteriorating, in contrast to the recovery being experienced in the latter two countries. Hence, in the case of Malaysia, pragmatism seems to have worked in turning the economy around.²³

It is arguable that even before the implementation of the capital controls Malaysia's pragmatism with regard to globalization had made its economy more resilient and thus less vulnerable during the Asian crisis compared to many of its regional peers. Two factors stand out. First, the authorities' restriction on unhedged foreign borrowing by its corporate sector prior to the crisis meant that Malaysia's banks and corporate sector were relatively less exposed to the adverse impact of exchange-rate depreciation on foreign debt (see table 5),²⁴ especially vis-à-vis Thailand, Indonesia and Korea. In addition, the fact that a greater proportion of net private-capital flows to Malaysia, relative to its regional peers, was in the form of FDI rather than short-term portfolio or debt inflows meant that it was less vulnerable to capital reversal during the crisis than were its peers.²⁵

Table 5. Measures of International Liquidity (percentages as of June 1997)

	Malaysia	Thailand	Indonesia	Philippines	Korea
Foreign debt/ Exports (1996)	42	121	221	98	n.a.
Short-term debt/ Reserves	61.2	145.3	170.4	84.8	206
Short-term debt/ Total debt	56.4	65.7	59	58.7	67.8
Reserves/ Total debt	92.2	45.2	34.6	69.3	32.9

Source: Chang and Velasco (1998)

The second pragmatic factor that has increased Malaysian economic resilience is more social in nature. Section 2.3.1 briefly mentioned the policies implemented by the government in order to reduce poverty and the wealth imbalance between the different races in the country and to enhance indigenous participation in the economy. These policies are bearing fruit.

The proportion of the population subsisting on less than U.S.\$1 a day was less than 2 percent in 1997. Ethnic wealth imbalances have also declined. The corporate-equity ownership of the Bumiputera population has increased from 2.4 percent in 1970 to 19.1 percent in 1999 (Abu Bakar and Golam Hassan 2003). Additionally, the proportion of the Bumiputera workforce in higher-paying professional and technical job categories has increased (1990: 10%; 2000: 13.6%), while the proportion in low-income agricultural jobs has declined (1990: 37%; 2000: 21.3%). In selected professional occupations—for instance, accountants, architects, engineers and lawyers—the proportion of Bumiputera has also

²³ In fact, Kaplan and Rodrik (2001) stated that Morgan Stanley reinstated Malaysia in its index one year after the implementation of capital controls by explaining that many investors had remained in the Malaysian market.

²⁴ Lecture 18 of the course Emerging Financial Markets, taught by David Beim, professor of professional practice, at Columbia Business School in fall 2003.

²⁵ For an alternative view, see Bird and Rajan (2002).

increased (1990: 20.7%; 2000: 28.9%) (Malaysia PMD 2002). In addition, according to a report on the Eighth Malaysia Plan by the prime minister, the number of Bumiputera enterprises has increased.

Arguably, low levels of poverty and enhanced equality in wealth distribution played a significant role in maintaining social order during the Asian crisis and prevented riots like those that plagued and crippled the Indonesian economy, which was heavily imbalanced with a rich Chinese minority and poor indigenous majority. An analysis of the maintenance of social order in Malaysia during the crisis is provided by Ching (1999), who states, “[U]nlike some other countries, such as Indonesia, there did not appear to be an increase in crime as a result of the economic downturn. In fact, Kuala Lumpur’s police reported a drop in serious crimes and violence-related offenses and crimes involving property.” It should also be noted that when there were social disturbances, these were mostly due to elements within the large immigrant labor force.²⁶

Malaysia’s current resilience is summed up perfectly by Stiglitz: “Now Malaysia has an economic situation that is the envy of others. They have a kind of economic stability which others don’t have. They managed their way through the crisis, and that gives them a certain amount of confidence.”²⁷

5.2. Assessment of Singapore’s Total Globalization

5.2.1. *Likely Consequences of Current Policies*

Singapore has embraced globalization as one of the five vital tenets necessary for “New Singapore” to survive. This concern over survival was well expressed by its prime minister, Goh Chok Tong:

I have seen China’s transformation at close quarters. It is scary. Our biggest challenge is therefore to secure a niche for ourselves as China swamps the world with her high quality but cheaper products. . . . Singapore’s growth up to now has primarily been investment-driven. This has taken our prosperity to an extraordinary level. But looking into the future, there are limits as to how much more we can rely on such a strategy.²⁸

Unlike Malaysia, Singapore does not have any natural resources to depend on. Given its heavy reliance on manufacturing (26% of 2002 GDP), China’s low-cost, high-volume and increasingly high-quality manufacturing capability is doubtless an immense threat. The economic retrogression of some of Singapore’s Southeast Asian neighbors due to the Asian

²⁶ Examples of these disturbances included minor riots by illegal foreign laborers who had been arrested and were due for repatriation.

²⁷ Perlez, “Mahathir . . . steps down.”

²⁸ “Singapore unveils new economic plan,” *International Herald Tribune*, August 21, 2001.

crisis and recent sociopolitical instability has posed additional challenges for Singapore, because companies often used it as a base for doing business with the rest of the region.

Therefore, the question of the likely consequences of Singapore's globalization policies has a different tenor than the same question asked about Malaysia. There is little doubt that embracing globalization—trade, foreign direct investment and capital flows—has helped this tiny nation with no natural resources to become a global success story in less than four decades (cf. Hong Kong, whose modern stock exchange can be traced back to at least 1947, if not 1891, and Switzerland, whose stock exchange dates back 150 years). The real question for Singapore is whether globalization, alone or in conjunction with other policies, will enable the nation to stay economically relevant going forward. In other words, is globalization in and of itself a cure-all?

5.2.2. *Critical Evaluation of Policies*

The economic aspects of Singapore's version of globalization will first be considered before the other tenets of the WC, particularly the reduction of government intervention in a globalized economy, are assessed.

First, in terms of the noninternationalization of the Singapore dollar, it is argued that this policy will continue to serve Singapore well, at least in the near future. The policy has been a long-standing one and is premised on the "use of the exchange rate as the principal tool of monetary policy."²⁹ Arguably, restricting nonresidents from borrowing Singapore dollars for speculative purposes unrelated to economic fundamentals had partially insulated Singapore from the effects of capital flight during the Asian crisis (consider also the school of thought that states that East Asian countries like Singapore and Hong Kong that successfully defended against a devaluation of their currency had averted the main impact of the crisis). Indeed, with Singapore's relatively small economy and currency pool, there is much merit in maintaining a noninternationalization policy to prevent speculative attacks.

The question remains, however, whether Singapore can indeed become a key global financial market if it continues to defend this policy. The government clearly did not think so, because to promote the bond market, it had further relaxed the noninternationalization policy by, for instance, announcing in 2001 that banks need no longer set aside reserves for Singapore dollars received from swaps (needed to swap Singapore dollar proceeds from bond transactions into foreign currency) of *nonmaturity* period with nonbanks (Ngiam and Loh 2002).

However, it is argued that liberalizing its financial markets completely would still not guarantee Singapore's success as a financial center. For example, Singapore failed to fully

²⁹ Monetary Authority of Singapore, Notice MAS 1201, March 20, 2002.

benefit from the rising tide of global portfolio capital flows between 1998 and 2000, unlike countries such as Ireland, which saw portfolio inflows of \$26 billion. This has been attributed to the fact that countries such as Ireland have “larger or more dynamic economic hinterlands, including the combined euro zone” (A. T. Kearney 2002). Section 6.2 discusses some recommendations as to how Singapore can better position itself as a financial center for Southeast Asia, a region with about \$600 billion combined GDP in 2002 (cf. India’s GDP of \$515 billion),³⁰ if not the rest of Asia.

Second, it can be shown that Singapore has certainly achieved sustainable growth by relying on foreign investment. While FDI grew at the annual rate of 14 percent between 1975 and 2001 (see table 3), Singapore’s GDP grew by approximately 8 percent during the same period. Given the fact that foreign investment in Singapore is mainly direct (vs. portfolio), Singapore, like Malaysia, was also less susceptible to capital flight during the Asian crisis.

Table 6: Net Private Capital Flows (\$B)

FDI in Singapore	1998	1999	2000	2001
Direct equity investment	139.9	157.6	182.4	202.4
Portfolio equity investment	5.8	7	6.7	6.4
Direct equity investment (as % of total)	96%	96%	96%	97%
Portfolio equity investment (as % of total)	4%	4%	4%	3%

Non Singapore Department of Statistics.

However, going forward Singapore will likely have to both change the sectors in the country into which FDI flows and increase the proportion of portfolio equity investment to achieve its aim of becoming Asia’s premier financial center. The former is a necessary concern because, while Singapore’s labor is ranked as the top workforce worldwide, Singapore is also no longer as cost-competitive as other Asian countries, such as Malaysia and, certainly, China. Therefore, Singapore likely will not be able to rely on continuing to attract low value-added manufacturing investment, even in sectors like electronics (its current mainstay), because other Asian countries now have significant cost advantages. In terms of increasing portfolio equity investment, if one of Singapore’s strategic focuses is to become a key financial center as well as a financial- and business-services hub, attracting more portfolio equity investment is vital.

Third, in terms of trade, Singapore has always taken advantage of its prime location and deep-water ports to capitalize on trading revenues. The country has leveraged one of the highest trade-to-GDP ratios in the world (273% in 2002) to develop world-class airport and seaport facilities as well as related financial and business services. However, it is also evident that fluctuations in global and regional trade would have significant adverse effects

³⁰ World Bank, World Development Indicators Database, July 2003.

on Singapore's economic well-being, thus calling into question whether the country should place as much reliance on trade in the future. Indeed, the government has expressed concerns about Singapore's continued relevance as a gateway to Southeast Asia, fearing that the region may be relegated to the position of "Asian backwater," since the ASEAN (Association of Southeast Asian Nations) countries have not recovered their pre-Asian crisis luster. With the relentless growth of China and, to a lesser extent, South Korea and the continuing importance of Japan, it is unsurprising that Singapore should fear the diversion of trade to North Asia. Further, countries with similarly advantageous geographies, such as Malaysia, have also started to compete aggressively against Singapore by improving their port facilities.

Fourth, Singapore has been cautious—some would say too cautious—in privatizing its government-owned businesses and opening up various sectors to foreign competition. For instance, it was only in 1999 that the government started to issue Qualifying Full Bank (QFB) licenses to foreign banks (six licenses thus far). Typical of its gradualist approach, the government is still "in a watching and studying mode."³¹ In support of gradualism, one is hard-pressed to find an example of a country that has successfully built world-class or regional companies through immediately allowing full foreign participation. In terms of privatization, Temasek Holdings, a holding company privately held by the Singapore government—often with majority shares in multiple government-linked corporations (GLCs)—has only recently started to divest some of its shareholdings. However, it should be noted that despite majority government ownership, GLCs have fared considerably well thus far and account for about a quarter of the total stock-market capitalization. There is increasing consensus, even within the government, that building and controlling large GLCs is "yesterday's formula for success" (Shari 2000). Therefore, while there is value in carefully allowing foreign competition and gradual privatization, it is now vital for Singapore to swiftly privatize and become globally competitive.

Finally, similar to Malaysia's experience, there is evidence that government intervention is necessary in Singapore, at least at the onset, to create a stable environment and to put in place the various features of an open economy. Thus far, the Singapore government has very effectively opened up the economy while maintaining careful control over political stability, racial harmony, currency stability, an effective legal system and foreign competition. In support of the gradualist approach, China chose to phase the opening up of its economy and has achieved remarkable economic growth doing so. Given that stabilization is a key component of the WC, it appears contradictory that government control—at least in some form initially—should be frowned upon. However, as more

³¹ Agence France Presse, "Singapore open to accelerating bank liberalization: report," May 22, 2002, <http://www.singapore-window.org/sw02/020522af.htm>.

economies become increasingly open to foreign investment and participation and as companies gain access to a regional or global supply of goods and services, competition increases and leads to reduced profits, loss of business and diversion of investments. Therefore, capital efficiency becomes crucial, and government intervention (either in owning businesses or preventing foreign competition) becomes an impediment to continued growth.

5.3. Why Have Malaysia and Singapore Both Succeeded Thus Far Despite Different Globalization Approaches?

The answer to this question is not complex. Both countries have succeeded because they have adapted the globalization process to their individual circumstances and objectives. The following circumstances stand out.

Malaysia and Singapore differ in terms of the availability of natural resources, especially labor and the amount of landmass available for development.

Malaysia is rich with tin, palm oil, rubber and petroleum and has a relatively large landmass for development. It is therefore not surprising that Malaysia has pursued an export-oriented economic-development strategy based on increasing industrialization. This strategy has necessitated the adoption of liberal policies with regard to the globalization of trade, industry and labor in Malaysia. Faced with increasing industrialization and enhanced competition in the region, Malaysia is undertaking efforts to move up the value chain. Given this objective, it is again not surprising that Malaysia encourages the free inflow of foreign ideas, technology and skilled labor. In the context of these strategies, the financial sector is viewed as a conduit of financing for industry—the channel by which capital may flow from savers to investors—rather than as an engine of growth in its own right.³² In this regard, it has not been necessary to allow full liberalization and globalization in the financial sector. Rather, the interests of the financial sector have been subjugated to the development of industry.

In contrast, Singapore possesses scant natural resources in its 246 square miles of land (it is 500 times smaller than Malaysia) and even has to purchase water from Malaysia. Accordingly, the government's initial development strategy was to create a stable political environment and to take advantage of Singapore's advantageous geography (deep-water ports) and location (along a main shipping route) in order to attract foreign direct investment, particularly in manufacturing, and to facilitate trade. Because it has no natural resources to export, reexports—47 percent of total exports—are a significant portion of Singapore's trading activities. In the 1970s, Singapore also had to attract multinationals to

³² This vision of financial-sector development is stated in Malaysia's *Financial sector masterplan*, a development blueprint initiated by Bank Negara Malaysia and launched by the Minister of Finance in March 2001 to chart the course of the financial sector over the next decade.

set up manufacturing facilities to provide jobs for its diligent but relatively uneducated population.

However, it became clear that an overreliance on low-margin reexporting and on foreign enterprises providing low-wage jobs was insufficient to fuel further wealth creation. Therefore, the government's subsequent strategy was to move Singapore up the value chain to become a financial- and business-services center. Today, total services account for almost 40 percent of Singapore's GDP. The country has successfully transformed itself into a hothouse for world-class local and foreign service providers catering to companies in manufacturing, trade and ICT in both Singapore and the rest of Southeast Asia.

Malaysia and Singapore also differ in terms of the racial composition of their respective populations. Malaysia's population is approximately 62 percent Bumiputera, 27 percent Chinese, 7.6 percent Indian and 3.4 percent other ethnic groups (Abu Bakar and Golam Hassan 2003). The country is therefore made up of three major ethnic groups, each with different aspirations and levels of economic standing. Under these circumstances, the maintenance of social harmony is a high-priority objective for the government, and it has not been possible for Malaysia to adopt Singapore's brand of total globalization. In particular, as discussed in section 2.3.1, policies that at first glance appear to be discriminatory have been required in the interest of national harmony. Section 5.1.2 demonstrated the success of this aspect of pragmatic globalization in increasing Malaysia's resilience.

While Singapore's population is also made up of three main ethnic groups—Chinese, Malay and Indian—the makeup is different, with 77 percent, 14 percent and 8 percent, respectively (the remaining 1 percent is a mix of other ethnic groups).³³ Singapore also differs from Malaysia in that the Chinese majority in Singapore generally has a higher income level compared to the minority races, whereas in Malaysia the Bumiputera majority does not have a higher average income than the Chinese minority. Because of these two differences, the Singapore government has been better able to implement globalization policies (such as attracting foreign talent despite potential short-term unemployment of the local population) without concerns about political repercussions or protecting affirmative action.

Another implication of Singapore's racial makeup for its globalization policy is the comparative ease with which Singapore, arguably the only country outside of China governed by a Chinese majority,³⁴ has been able to do business with overseas Chinese (China and Hong Kong). For instance, next to Malaysia, the United States and Japan, China

³³ Singapore Ministry of Health, 2003. N.B.: These figures refer to Singapore residents only.

³⁴ The authors do not express any views as to whether Taiwan is recognized under international law as an independent country.

and Hong Kong are Singapore's fourth- and fifth-largest trading partners (Ministry of Trade and Industry 2002). As of end of 2001, China was also the largest recipient of direct investment from Singapore, accounting for 13 percent, or about U.S.\$10 billion,³⁵ which was the fifth-largest source of foreign direct investment in China (China MOFTEC 2003).

6. Conclusion and Recommendations

This paper has shown that differing economic and political ideologies can be successful in an environment of globalization. Both Malaysia and Singapore have succeeded economically thus far, despite relatively different approaches to globalization. The secret to the success of both countries has been their ability to adapt the globalization process to their individual circumstances and objectives rather than adhere rigidly to one form of globalization or another. Going forward, given their different circumstances and objectives, any recommendations for improvement must necessarily be tailored to each country.

6.1. Malaysia

In the case of Malaysia, the practice of pragmatic globalization has brought significant benefits thus far and should be continued. However, several reforms are needed if the country is to experience further success.

Given Malaysia's dependence on economic globalization, the increasing liberalization of trade and investment and the progressive reduction in tariff levels under the ASEAN Free Trade Area (AFTA), as well as the increase in regional competition, especially from China, the government needs to operate efficiently and support a comprehensive strategy to enhance Malaysia's competitiveness. In particular, the government needs to enhance public-sector service delivery, labor quality and productivity, domestic enterprise and freer capital flows.

First, the government needs to increase its productivity as well as the efficiency of public-sector service delivery. An efficient government facilitates an efficient commercial sector and would enhance Malaysia's attractiveness as an investment destination. The newly elected government has acknowledged this by making public-sector efficiency one of its key policy objectives.

Second, the government should continue its liberal policy with respect to the free flow of foreign knowledge, labor and technology to achieve a world-class business environment.

Third, Malaysia's competitiveness will also be increased if the government facilitates the growth of the private sector. The recent 2004 national budget recognized this objective

³⁵ A. Tan, "Singapore's top investment destination—China," *The Straits Times*, August 23, 2003.

with an initiative to provide a supportive environment for private-sector initiatives while gradually cutting back public expenditures.

Finally, the government should consider the progressive removal of the machinations of the NDP to allow freer capital flow. Freed from the constraints of racial quotas on investment and ownership, capital inflows would be stimulated and allocated more effectively within the economy. However, this recommendation should only be considered after the objectives of the NDP have been achieved and when the imbalance in economic standing between the various races has been addressed. The maintenance of national harmony needs to be of paramount importance, as shown by the Indonesian experience during and after the Asian crisis.

Another factor for Malaysia's continued success is to enhance resource efficiency and avoid wasteful resource misallocation. This requires a mind-set change to focus developmental efforts on industries in which a true competitive advantage may be established. Higher value-added manufacturing sectors (e.g., electronics) are prime candidates given Malaysia's long involvement and current efforts to move up the electronic value chain. For instance, Mahathir Mohamad, former prime minister, supported the venture by Silterra Malaysia to produce the so-called Malaysian Microchip, described as the world's smallest radio frequency identification antenna-integrated circuit and the only device of its kind.³⁶ Additionally, the government has declared its intention to pursue new growth areas in ICT and shared-services subsectors (e.g., operational headquarters, backroom operations), although there is considerable debate over the chances of success. The bottom line remains that the development of industries that absorb huge amounts of resources but are uncompetitive should be avoided. A good example is the domestic automobile industry, which has enjoyed import protection for approximately 20 years.³⁷

Given Malaysia's unconventional approach to globalization (particularly during the Asian crisis), it is equally important for it to improve perception management. Now more than ever, clear policy announcements have to be followed up with a thorough explanation of their rationale and consistent implementation, because investors are more likely to be affected by their perceptions of the investment climate in Malaysia than in other countries that have more widely accepted policies and ideologies.

Malaysia's dependence on FDI in spite of increasing competition for FDI (particularly from China and India), accentuated by its somewhat unconventional practice of pragmatic

³⁶ Described in T. Santiago, "Malaysia's leader completes 22-year trek into 21st century—Colorful and controversial, Mahathir Mohamad ignited nation's technology growth," *Electronic Engineering Times*, November 17, 2003.

³⁷ Yusof (2003) reports, "Malaysia has decided to defer the opening up of its automobile industry until 2005, instead of opening it up in 2003. Consequently, Thailand has argued that Malaysia should compensate it for the loss of the automobile markets in Malaysia. Negotiations are proceeding slowly on the compensation to be paid by Malaysia to Thailand."

globalization, leads to the final recommendation: to strengthen domestic sources of growth and reduce its dependence on external sources. The government acknowledged the need for vibrant domestic growth by recently implementing various tax and nontax incentives favoring domestic growth sources. In particular, efforts have focused on the promotion of niche services (private education, health and tourism), small and medium-sized enterprises and agriculture in order to insulate the country against circumstances beyond its control, diversify sources of growth and hedge against a reduction in foreign demand and investment.

6.2. Singapore

Given increasing competition for FDI (e.g., from China and India), Singapore's inability to capture portfolio capital compared to other countries with larger economic hinterlands (e.g., Ireland), the spotty post-Asian crisis recovery of the Southeast Asian neighbors that it used to serve as a financial- and business-services center, increasing labor costs and its small domestic market, Singapore's experience is evidence that globalization is a means to an end, but not a guarantee of sustained economic development. The recommendations that follow acknowledge this fact.

Singapore has to stay one step ahead of the other developing Asian nations, such as China and Malaysia, and progress to higher value-added manufacturing and services.

First, in terms of labor, Singapore should leverage and continue to upgrade its world-class workforce. The government recognizes this priority and has earmarked the development of a "knowledge-based economy to help improve long-term competitiveness" (ADB 2000). For instance, it raised the skills-development levy paid by employers to finance approved training courses for lower-paid workers.

Second, in terms of industry focus, Singapore should focus on moving up the value chain in information technology, biomedical sciences and services, research and development, education, media, etc. Critics may be skeptical of Singapore's chances in these areas, but a closer look reveals that the government is realistic about the challenges ahead. Take biomedical sciences, for instance. While striving to build world-class research facilities (e.g., attracting Johns Hopkins University to set up its Southeast Asian research and operations base in Singapore) and, hopefully, developing an environment conducive to bioscience entrepreneurship, the government has also more realistically targeted bioscience manufacturing (e.g., major pharmaceuticals, such as Merck, setting up production facilities) or becoming the center of medical services in Southeast Asia.

Third, in terms of trade facilitation, besides ensuring the cost-competitiveness of its ports, Singapore should also develop its trade, business and legal services to make it an optimal place for the import and export of goods. Further, Singapore should become party to and tap on as many beneficial multilateral, regional and bilateral trade agreements as

possible. To this end, the government risked its regional ties within the ASEAN organization to pursue bilateral trade agreements with Japan and the United States. On May 6, 2003, Singapore became the first Asian nation to enter into a free-trade agreement with the United States (prompting other countries, such as Thailand, to make a similar attempt). Given Singapore's lack of natural resources, it is imperative that the country continue to be a major trading hub in Asia.

Further structural changes to Singapore's economy and financial markets will help the country become one of Asia's top financial centers, or at least the center of Southeast Asian finance. As argued in section 5.2.2, it may not be necessary to fully internationalize the Singapore dollar, provided liquidity is made available through a well-developed currency-exchange market.

More important, given the potential decline in FDI, Singapore should try to capture a larger portion of global portfolio capital. By mid-2003, there were some 150 fund-management companies managing about U.S.\$10 billion worth of venture capital funds.³⁸ Based on data for the 1990s, less than 15 percent of these funds are actually invested in Singapore companies, with the rest going to other Asian countries, but managed from Singapore (Chan 1999). Therefore, Singapore must clearly position itself as an attractive place from which to manage portfolio capital invested in companies of other Asian countries, particularly in Southeast Asia.

To do so, among other things, Singapore needs to (1) develop and encourage a strong secondary market for venture capital to exit, (2) provide greater access to other Asian markets with less-developed financial markets (given the relatively small number of Singapore companies) and (3) lower taxes to make it more attractive to manage funds in Singapore. This should be achievable, provided its Southeast Asian neighbors regain their pre-Asian crisis economic growth, because they have less-developed financial systems. Also, the government should consider further liberalizing the financial markets to allow more sophisticated financial instruments to be developed and traded. A possible extension of the financial markets—a risk exchange—has already been mooted.³⁹

Singapore has already borne the brunt of well-known criticisms, most notably from Krugman (1994) concerning capital-allocation inefficiency. In section 3.3.2, it has been shown that Singaporean companies have indeed improved their capital efficiency since the 1990s. However, there is still room for improvement in terms of privatization and encouraging foreign competition, both fundamental economic conditions for encouraging better resource allocation. The government can certainly pick up the pace of privatization

³⁸ Singapore Economic Development Board, "Startups: venture capital," http://www.sedb.com/edbcorp/sg/en_uk/index/startups/financing/venture_capital.html.

³⁹ Reuters Newswire, "Singapore to boost finance and medical hub status," September 18, 2002.

by divesting more of its shareholdings. At the same time, the government should also encourage greater diversity within the management of GLCs, which are currently still largely overseen by people of bureaucratic backgrounds. In terms of encouraging competition, the government should also consider allowing foreign financial institutions to invest in existing local institutions as a corollary to granting licenses for operating in Singapore. In this way, the local institution will be able to benefit from the expertise of the investing institution.

Like Malaysia, perception is also an issue for Singapore. In this case, it is not about investor confidence. Instead, Singapore needs to carefully manage its image as the “brainy kid classmates love to hate, but who some secretly admire” (Reyes 2000). Singapore’s higher level of economic performance compared to its neighbors (e.g., Indonesia) has sometimes been the source of dissatisfaction in these countries. In fact, there was significant discontent when Singapore chose to enter into, separate from the ASEAN group of nations, bilateral trade agreements with Japan and the United States, thereby potentially jeopardizing the efforts of ASEAN cooperation. Singapore needs to understand not only that its Southeast Asian neighbors are some of its largest trading partners (Malaysia being the top partner), but also that many companies already use or may choose to use Singapore as a base from which to invest in the rest of Southeast Asia. Therefore, the government needs to carefully manage its relationship with the other ASEAN states to ensure that Singapore benefits fully from the effects of globalization at the regional level.

In terms of investor confidence, the only issue is that if Singapore’s government is committed to promoting Singapore as an ideas hub—an academic or research or arts and media center—the government definitely needs to reconsider and change Singapore’s global image as an authoritarian state with strict controls over the freedom of expression.

Finally, given the long-term mobility of FDI, Singapore—like Malaysia—now needs to focus on domestic sources of growth and reduce its dependence on FDI. As competition increases with greater globalization, innovation and entrepreneurship to develop better products, services and technology will be vital to drive economic growth going forward. To this end, the government has already lowered the costs of starting up a business and amended bankruptcy rules. It will take some time before softer forms of promoting entrepreneurship through awareness, education and social networks produce results.

Based on the experiences of Malaysia and Singapore, this paper argues that globalization is an important means to achieve economic success, but certainly is neither a panacea for all of a nation’s problems nor a guarantee of sustained economic development. When adapted to local conditions and properly paced with careful government implementation, globalization’s impact on growth and development is nonetheless powerful and undeniable.

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