

## PART V

### SOME ASPECTS OF THE WIDER POLITICAL AND SOCIAL RAMIFICATIONS OF FOREIGN INVESTMENT\*

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#### The Position Before the Efforts at Full-scale Industrialization

In order to examine some of the broader issues and ramifications, socially and politically, of the onrush of foreign investment in Singapore, it will be necessary here to recapitulate briefly some of the factors and events leading up to the decision to orientate towards a full-scale programme of inducement of foreign capital and expertise for the process of industrialization.

At the close of the colonial period in 1959, the Singapore economy showed the marked characteristics consequent upon its historic colonially relegated role as the shipping and financial node and trading emporium sited between and servicing the advanced industrial economies of the West and the surrounding raw material producing region, chiefly its main hinterland, Peninsular Malaysia. Singapore traditionally was a focal point for western interests, particularly the British, then the world's dominant trading nation, for naval and commercial access to one of the more developed and physically accessible regions, particularly in plantation agriculture and mining, of the then primitive and very underdeveloped tropical world. Its compradorelike role in the region underlined one major aspect of its function as the nexus of the Western imperial and commercial network in Southeast Asia.

On the small island of Singapore there was no scope for plantation crops on any appreciable scale, and with the lack of mineral resources, economic activity was totally dependent on merchandizing, the servicing of the British military establishment and the revictualling of ships

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\* In preparing the first part of this paper I have benefited from and utilized material of an unpublished draft by my colleague Dr. S.B.D. de Silva.

calling at what was already a major port of Asia. In these circumstances, manufacturing was extremely limited, and entrepreneurs had to contend with a restricted home market, tariff-free imports of consumer goods, with the emphasis on British manufactures and a consumer preference for imported goods from Europe.

Generally the modest scale of manufacturing had to be compatible with the pattern of generally free trade policies. Industrial activity consisted of the processing of imported agricultural and forest produce such as rubber, coconut oil, timber, and rattan. Tin-smelting was also carried out, and at later stages certain small-scale industries catering for the island and peninsular market developed. These industries were those which enjoyed a built-in protection because of high transport costs due to bulkiness and to the proximity to raw material and relatively cheap labour. Examples were sawmilling, furniture and fabrication of wooden packing cases, rubber footwear, food and beverages and, to a more limited extent, printing and publishing as well as the cottage manufacture of very cheap local consumer items not produced in the West such as wooden sandals, soya sauce, paper umbrellas and religious and ritual necessities. Even these however had to contend with cheap imports from China and Hong Kong, which in addition enjoyed product image advantages over Singapore-made goods. Under one current method of categorization, the chemical industry in Singapore, in the days of its colonial entrepôt function, would have been represented solely by the backyard and small workshop boiling of low-grade soap. This exemplifies the primitive state of manufacturing in a predominantly trading city and points to the accompanying attitudes of mind which placed high value on the faster proceeds of trading. Industrial skills, at managerial and worker levels, were thus almost totally lacking.

The inadequacy of this kind of economy to sustain growth or even maintain living standards of a population growing at about 4.4% per year was underlined further when a flight of capital and entrepreneurship to Malaya took place in the late 1950s and early 1960s, compounded earlier by doctrinaire policies of certain political groups. There was clearly some uneasiness on the part of foreign investors. The relative decline was accelerated, amongst other things, by the granting of pioneer status and "tax holidays", then a fairly attractive innovation by itself, by the Federation of Malaya for industries which could thereby exploit the larger home market offered by Malaya.

A government-sponsored U.N. industrial survey mission in 1960 and 1961 recommended industrialization for Singapore. This policy was adopted relying mainly on foreign capital. Industrialization next gained momentum through political merger with an enlarged Malaysia in 1963 incorporating Peninsular Malaya with Singapore and the British Bornean territories. A potential market of 10 million with an average living standard the highest in Southeast Asia, and second highest in the region between Japan and the Middle East, encouraged local and attracted foreign investment. By 1964, the initially domestically oriented industrialization had begun to show some export growth. This was especially so for made-up textile goods and wearing apparel, leather goods, footwear, and plastic articles. In the case of made-up textiles and wearing apparel the proportion of exports to total sales amounted to more than 70%.<sup>1</sup> It is to be noted that the industries involved were both labour-intensive, and would now be regarded as low technology. In addition, production units were small and catered mainly for the domestic market, although exports were beginning to expand.<sup>2</sup> Singapore then was beginning to join the ranks of a group of nations that had their industrialization boosted initially in the same way by selling goods produced by cheap labour such as in prewar Japan, an earlier Mexico, Hong Kong and Taiwan.

This "sweat shop" phase did not last long for Singapore and the general compression in the time-frame of its history of industrialization is of some social and political significance.

#### Separation from Malaysia and Industrialization

A crucial turning-point in the developmental process for Singapore took place in 1965 with separation from Malaysia. This in fact was responsible for a radical reorientation of the framework and a shifting of the focus of industrialization. Without any further prospect of free entry into the Malaysian market, up to then regarded as the

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- 1 Wu Ta-Yeh, "McKinnon's Value-Added Tax and Industrial Development in Singapore," *Malayan Economic Review*, vol. 13, no. 2, October 1968.
  - 2 D.C. Blake, "Pattern of Singapore's Trade," *Malayan Economic Review*, vol. 13, no. 1, April 1968.

panacea for Singapore's unemployment and export problems, an even heavier reliance began to be put on foreign investment. Rapid moves were made to restructure the economy on the rationale of world-exporting industrialization, broad-based and free from the constraints of overdependency on one single market.<sup>3</sup> Separation, in one context at least, meant political isolation and economic strangulation, if no remedial measures were taken swiftly and implemented decisively. The leadership's frequent use of the term "survival" underlined the grim reality of the situation. Thus the subsequent strategy of accelerated industrialization, at all costs, with foreign capital and expertise, was born out of an impelling necessity which in turn reflected a potentially desperate situation.<sup>4</sup>

In the thrust towards industrialization, Singapore was aided by several factors inherent in its situation. Despite the mercantile mentality of financiers and entrepreneurs, the compactness of the city-state and a population galvanized into discipline by the fears arising from an abrupt separation (in the eyes of many, it was in fact an ejection) aided the planners.<sup>5</sup> Singapore is not weighed down by a typical Southeast Asian rural hinterland, with a substantial population, low in health and education, spread geographically over wide tracts of terrain. The mere maintenance of living and health standards would require heavy expenditures for physical and social infrastructure. The disciplined nature of the Singapore population and workforce, commented upon by many observers, played an important role in rapidly making

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3 Merger with Malaysia had shown basic cleavages in attitudes to industrialization. Discussions in the Malaysian Tariff Advisory Board indicate the strongly entrenched mercantile interests of Singapore, opposing tariff restrictions which might offset the entrepôt trade. There was also the fear that Singapore, traditionally dependent on cheap imported consumer goods, would have its cost of living adversely affected. Furthermore, there was always the squabbling over the siting of prestigious, modern, large-scale industrial ventures financed by foreign capital. For example, Singapore lost to Malaysia a fertilizer plant in this period.

4 For comments on this topic, see Lim Joo-Jock, "Singapore: Surmounting Assessables, Encountering Intangibles," in *Southeast Asian Affairs 1976* (Singapore, 1976).

5 Ibid.

Singapore well-known to foreign investors as place of labour tranquility - a rare kind of a place for industrialists plagued by strikes and absenteeism in their home countries. This largely voluntary labour discipline was reinforced by many stringent labour laws which practically outlawed wildcat strikes but provided a safety valve through compulsory arbitration over disputes.

Related to the lack of a rural hinterland was the absence of the impediment of rural or agriculturally oriented labour which often results in workers, once they have earned enough, taking long leave of absence during rice transplanting and harvest time, village festivals and other occasions which culturally take precedence over the call to work in the urban factory.

The country's lack of natural resources can in one context at least be regarded as a favourable feature in its attitude towards foreign investment. First, due to the poverty of resources, foreign investment for industrialization was all the more welcome. Secondly, the existence of resources, such as minerals, would have engendered political pressures to control foreign exploitation of "the nation's irreplaceable natural wealth." In countries where such political pressures exist they may have helped to tarnish the investment image of the country concerned.<sup>6</sup>

Above all there was a widespread determination to make Singapore a political and industrial success - that it should survive and not go under, due to machinations of "enemies". Improvements in social consumption such as large-scale, cheap but adequate housing, health and education were provided quickly and efficiently by an administration which earned the admiration of foreign investors for its efficiency and honesty, and helped ensure the much-desired political stability of the country. This ensured that the political leadership projected the image of stability and a general posture of fair-play-to-foreign-investors. The government

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6 For example, see *Straits Times*, 29 July 1976, in which it was reported that Malaysia had demanded that oil-exploring companies acquiesce to Malaysian terms or else "face a take-over." It has also been reported that President Suharto has called for speedy conversion to Indonesian employment and ownership of foreign companies operating in Indonesia. See *Straits Times*, 5 August 1976.

was favourably disposed to the interests of foreign capital, provided they brought in the desired kind of industry and the requisite skills of management and the highly valued expertise of overseas or export marketing.

From 1965 onwards Singapore's industrialization gained rapid momentum in a climate of political stability and labour tranquility which foreign investors regard as crucial. In the period 1960-74, manufacturing was the fastest growing sector of the economy, showing an average yearly growth rate of almost 14% in real terms.<sup>7</sup> The thrust from 1965 onwards showed up in very rapid growth during the period 1968-73, during which time the value of direct exports of manufactured goods increased nearly fivefold, value-added in industry (at constant prices) was multiplied more than four times and employment in industry increased almost three times.<sup>8</sup> The petroleum-refining industry played a major role in the increases of exports.<sup>9</sup> The achievement would not have been but for foreign investment and expertise, and importantly, their ready overseas buyers in the more developed countries.

#### Dependence on Foreign Investment for the Success of Industrialization

From 1970 to 1974, Singapore attained a rate of export growth which reached an average of 37% per year.<sup>10</sup> An observer has stated that without the massive inflow of foreign firms it would have been doubtful if Singapore could have reached the two-digit growth rates it experienced in the period 1968-73.<sup>11</sup> It was the multinational

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7 The source of this is the Department of Statistics, Ministry of Finance, Singapore.

8 Ibid.

9 See Corazon M. Siddayao, "Singapore's Petroleum Sector: A Case Study of the Country's Investment Growth," Part III of this study.

10 *Economic and Political Growth Pattern of Asia-Pacific* (Honolulu, 1976), p. 56.

11 Pang Eng Fong, "UNCTAD Technology Transfer Proposals and their Implications for Singapore," in *The New International Order and UNCTAD IV*:

corporations especially which brought in with them their own ready markets. It was estimated in 1975 that at least 70% of Singapore's manufactured exports were derived from companies with foreign participation.<sup>12</sup>

As early as 1970, it was estimated that solely foreign-owned firms accounted for 57% of the value of total exports, and the figure for joint ventures was 84%. Solely domestic companies by contrast provided only 17% of total exports.

With success attained through such heavy reliance on foreign investment, foreign-owned technological processes, foreign expertise in management and marketing and ready markets captive to the foreign investor, it is more than doubtful if Singapore can steer its own to another kind of strategy of development. By attracting the appropriate MNCs, several seemingly intractable problems are solved at one stroke, once the factories of the MNCs become operational. First, there is the problem of the penetration of complicated, competitive and hard-to-assess, overseas markets; secondly, the technology and expertise to manufacture goods of an internationally acceptable standard; thirdly, there is the perennial problem of proper utilization of the workforce and the upgrading of its standard of skills. Seen in this context, the actual capital required, unless it is for highly capital-intensive ventures like petroleum-refining and petrochemicals, is perhaps of less significance than the problems of successful export-marketing and technology transfer.

It is beyond question that indigenous capital and entrepreneurship alone, even with government aid, could not have attained even a minor part of the Singapore export growth of the late 1960s and early 1970s.

The economic performance was thus gained by inviting in foreign investment and its appurtenances on a massive scale, that is, relative to Singapore's size. This was achieved at the cost of relegating local capital and entrepreneurs to a minor role in the drive towards industrialization. Local capital was unaccustomed to the

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*The Implications for Singapore*, p. 135, ed., Pang Eng Fong and Chow Kit Boey (Singapore, 1975).

12 Ibid.

kind of large ventures and modern export marketing needed in this phase of development. Sometimes local entrepreneurs participated with foreign investors in joint ventures. But new manufacturing firms with a purely local capital content were minimal except in the case of small ventures, usually providing back-up facilities in goods and services to the export-oriented MNCs.

The changed structure and focus of Singapore industrialization after separation displayed two main features. Thus, besides rapidly increased export-orientation there was a marked increase in foreign ownership and control of the industrial sector of the economy. The rapid expansion of the industrial sector was due largely to the role of foreign investors. During 1965-72 foreign asset holdings rose about fifteen times. This, however, was due largely to investment in capital-intensive project, particularly oil refineries.

With such heavy dependence on the foreign capital and skills, it would seem highly unlikely that the present leadership would alter its present policies towards foreign investment. The success of the export drive, and the position of the major exporter of manufactured goods in Southeast Asia, were achieved by foreign investment. In this sense, the foreign investor, particularly the MNC from countries with friendly diplomatic relations with Singapore, has served as the catalyst for the transformation of an entrepôt economy to an industrial one with worldwide, as well as regional, markets for its goods.

But it is fair to assume that this substantial and rapid advance, in terms of growth and modernization of the industrial sector, may have had some effects on the local capital owner and entrepreneur.

The Speed of the Progress Towards  
an Industrializing Society, and a  
Congruency of Foreign and Singapore Interests

Singapore's economic strategy then called for a global outreach - leap-frogging spatially any geographical belt that was not conducive (or which showed protective and obstructive reactions) to its export efforts. Over and above this, it also demanded that efforts should be at an accelerated pace. Thus the rapid growth was achieved within a compressed time-frame. From entrepôt, without the benefit of refugee

capital and industrial skill such as that which Hong Kong received to the manufacture of ball-bearings, precision and optical instruments and machine-tools, would normally have taken several decades at the least.<sup>13</sup> Hong Kong's industrialization had started much earlier, aided by capital and entrepreneurial skills fleeing Nationalist-led Shanghai in the late 1940s. And it can be safely said that the present level of sophistication of goods exported and the total volume of goods from Hong Kong do not significantly exceed that of Singapore's.<sup>14</sup> Much of the process for Singapore was telescoped, in time, to a period lasting about eight to ten years. In this period MNC involvement was massive. This factor of a shortened time-frame must be taken into consideration when examining the impact of foreign investment on the internal situation in Singapore.<sup>15</sup>

It can be argued by some that the overseas activities of foreign investors, generally, and of transnational firms in particular, are motivated by considerations extraneous, if not opposed, to those of the host country, that is, in the "overseas" or offshore bases where they operate.<sup>16</sup> Thus in the specific case of the automobile industry, when it comes to the excessive dependence on the motorcar, a process aided by unrestrained psychologically tuned advertising and in the case of atmospheric pollution by motor exhaust fumes, the interests of the car-maker and society may diverge. Yet equally it can be argued that if the manufacturer is wholly export-oriented, the aims, both short-term and long-term, could coincide between the MNC and the underdeveloped or rapidly developing host country. The profit motive, shown in company balance sheets and national foreign exchange earnings, bind both sets of interests together. It can be said that what is good profit-wise for Rollei or SKF Ballbearings can be deemed equally good for Singapore by planners of Singapore's economy in terms of foreign exchange earnings. Friction

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13 The industrial process or revolution would be measured in scores of decades in most countries.

14 For comparative trade figures, see International Monetary Fund, *Direction of Trade*, Annual 1970-74, October, 1975.

15 For a generalized background to economic growth in recent years in Singapore and Hong Kong, see Theodore Geiger, *Tales of Two City-States: The Development Progress of Hong Kong and Singapore* (Washington, D.C., 1973).

16 See D. Blake, "International Firms and Economic Development in Developing Countries" in *Malaysia and the Multinational Corporations*, ed. by Stephen Chee and Khoo Siew Mun (Kuala Lumpur, 1974).

may arise on relatively minor points due to differences in perception of common problems, such as the case of the oil MNCs and their local retailers. But overall interests should probably remain largely congruent, within the limits of the normal stresses and strains which any society would have to undergo in the process of accelerated industrialization.

#### Some Economic Problems

The rapidity of conversion from an entrepôt to an industrial economy, taking place within twelve years or so, created a position wherein locally owned or managed capital and entrepreneurship was faced with a narrowing of the width of options open to it. It can be argued that the advantages of welcoming foreign investors, of the MNC category, have to be accepted in a package which consists of financial capital, entrepreneurial, technological and managerial experience and expertise, and marketing outlets. *In toto* the package does certainly aid in bringing about rapid expansion of the industrial sector with a concomitant growth in exports. It can be argued further that a host country is usually denied the freedom to accept only selected components of the package which appear more valuable to it. In Singapore, itself a financial centre with a high rate of domestic savings and with a capital inflow from neighbouring countries, the ideal would be to accept the components of technological and managerial skill and the very important component of assured overseas marketing outlets. It can also be put forward that the level of indigenous entrepreneurship, albeit with a mercantile background, is higher than in neighbouring countries with a predominantly agrarian base. Nevertheless it can be further stated that the quality of indigenous entrepreneurship may not have reached the stage where it can envisage the type of high technology industries with complex worldwide markets which some of the MNCs represent.

The rapid influx of foreign investment has in fact meant that local capital has increasingly been diverted into the servicing sector, the hotel, catering and tourist trade, real estate and housing development, the processing of food and beverage, transportation and warehousing including regional shipping, and also the small to medium-scale back-up industries to major foreign-owned industries. The growth of back-up industries, like metal fabrication, specialized paint manufacture, and engine components is

particularly evident in the shipbuilding and shiprepair industries.<sup>17</sup>

It should be noted that some are traditional homes of local capital and enterprise, such as the food and beverage industry and housing development. In fact, in both fields, local entrepreneurship has tended to move out to neighbouring countries. Also, with a few joint venture exceptions, the sectors where local capital now tends to operate are of low technology and are in nature relatively low value-added and less export-oriented than the sectors dominated by the multinational corporations.<sup>18</sup>

In these circumstances the question can be raised as to whether the sheer volume of foreign capital and its overall pervasiveness might restrict the opportunities, smothering local investment from currently desirable higher technology areas and immobilizing it in the present low technology and servicing sectors, thus relegating it to a subordinate role in the national economy, with accompanying political consequences. There is no doubt that high technology and highly capital-intensive industries, with assured overseas markets, are dominated, to the point of exclusivity, by the big transnationals. It is also quite clear that ownership of servicing industries such as the catering and tourist industry, as exemplified in equity holdings of the major hotels, is mainly in the hands of local capital. It is also true that there is a strong element of local ownership of smaller-scale back-up industries fabricating parts and components for the large MNCs. This adds further to the impression that local enterprise is cast in a subordinate role.

The situation has arisen mainly because the almost desperate need for modern export industries created a

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17 There are notable exceptions, such as the shipbuilding industry itself where local capital has tended to go into joint ventures with foreign, particularly, Japanese investors, who bring ready clients with them.

18 Relatively low value-added industries include wood products, textiles and garments, food and beverage-processing and rubber products. High value-added industries are chemicals and petrochemicals, metals and engineering, electronics and optics, and other precision goods. See Ministry of Finance, *Economic Survey of Singapore*, p. 16, 1974. These higher technology areas are the field of the MNCs.

situation where the only groups - the MNCs - capable of achieving the task were welcomed. The short time within which targets had to be achieved dictated the strategy of MNC participation in the Singapore economy. With the kind of urgency expressed for "survival", local capital owners and entrepreneurial skills did not on the whole have the time necessary to reorientate to the new situation, to unfamiliar problems and the unaccustomed opportunities. In fact the share held by wholly local-owned manufacturing firms of total output, value-added and employment has declined sharply in the period 1968-74, with an accompanying increase in share by wholly-owned foreign firms. Massive foreign investment has led to a diminishing importance, in relative terms, of the independent indigenous manufacturer. It is in this context that an examination of the Singapore Government's two-pronged policy of national participation in key sectors of industry and the more recent encouragement (but not enforcement) of joint ventures with skilled and experienced foreign firms, especially in small and medium-scale high technology manufacturing, becomes highly relevant.

The inability of indigenous capital to assert itself in industry against the flow of foreign investment is to a large measure due to the latter's access to greater capital resources, and access to the requisite high technology, and export outlets, and valuable brand-images acquired through many years of expensive advertising. These advantages accruing to the MNCs in particular and which work against the smaller local capital owner are in fact the very assets valued by the planners and architects of Singapore's rapid industrialization.

Government participation in industry through its agencies such as the DBS and the EDB can be viewed as being significant on two points. First, it ensures that the national interest is represented and national experience gained in the commanding points of the economy - industry, banking and finance, including insurance. Singapore interests are also represented and local expertise accumulated, in important and strategic industries such as shipbuilding, including warship construction, light armaments, petroleum-refining, and possibly petrochemicals, iron and steel, aerospace including aircraft-refurbishing and repair, oceanic shipping and specialized precision goods. The air-carrier industry and public utilities have always been in public hands. There seems to be less justification, however, for government intervention either directly or indirectly industries such as the wholesale importing of consumer

goods and food. Such participation - which in each industry concerned (except for warship construction and armaments) represents only a small fraction of total investment in the particular industry - can be viewed both as the government's having a stake in vital sectors of the economy and as a means of building up a pool of indigenous expertise. Initial government participation leading on to profitable operations and subsequent quotation on the local stock exchange means that the government initiative is a vital catalyst for the successful launching and fruition of large-scale, heavy capital ventures, largely locally-owned, which individual local entrepreneurs, relatively inexperienced in the industry would hesitate to take up initially. Local, that is, Singaporean participation in the more advanced sectors of the industry is thus enhanced.<sup>19</sup>

#### The Possibility of "Economic Nationalism"

Such official operations aimed at improving the position of local capital in selected industries and accumulating local high-level expertise do in fact oversee the national interest in the overall race towards full industrialization. It could also act as a counterforce to oligopolistic tendencies amongst certain groups of foreign investors. It should not, however, be confused with economic nationalism which in one extreme form means the total or near exclusion of foreigners in all or the majority of industries, or a policy of outright nationalization of foreign-owned ventures, with or without compensation. In milder forms, economic nationalism is manifested in outspoken, even virulent, attacks in the media on foreign ownership of economic enterprises, making things difficult, whether at governmental, local agency or petty official level, for the foreigner and in using majority local participation in joint ventures with foreigners as a rallying-cry to the electorate.

Analysis of governmental attitudes reflected in ministerial speeches and policy statements as assessed in Part I of this study indicates that these features do not appear to exist in Singapore. At any rate with its heavy

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19 Lim Joo-Jock, "Foreign Investment and Industrialization in Singapore," Part I of this study. See the section entitled "Government Participation in Commerce and Industry."

reliance on the transnational, with their expensively built-in brand and corporate images acquired and decades of shrewd marketing experience and foreign technology,<sup>20</sup> Singapore cannot afford the luxury of tampering overly with the susceptibilities of the foreign investors in its midst. The vital confidence built up over the past decade is unlikely to be frittered away by a leadership known for its qualities of pragmatism.

With the lack of an indigenous industrial entrepreneurial class, this contribution by foreign investors in Singapore resulted in the capital and technological inflow now represented in the 70% or more share by foreign concerns in Singapore's total exports. By contrast, Hong Kong displays a situation in which there are over 200 foreign ventures, including nearly all the well-known MNCs, yet these foreign firms account for roughly 13% of industrial employment and only 10% of total Hong Kong exports.<sup>21</sup> Foreign capital channelled through London-controlled banks and insurance companies played an important role in Hong Kong's industrialization, but "the industrialization leaders have been Chinese from Shanghai or the areas around Canton, as well as native Hong Kong industrialists working closely with British trading houses."<sup>22</sup> Starting their industrialization without the benefit of indigenous industrial skills, and unlike Hong Kong which gained from mainland Chinese capital and skills, Singapore relied heavily or almost entirely on the only sources available, namely, foreign investment and the MNCs in particular. Singapore is thus in no position to tamper with the role of the MNCs or toy with doctrinaire concepts of "economic nationalism".

Furthermore, the unsuitability of economic nationalism in the more extreme forms such as manifested in the

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20 The recognition of the indispensability of foreign investment is seen in a remark by the Singapore Prime Minister to the effect that Singapore-made products must be sold under the label of the well-established multinational company. *Straits Times*, 27 April 1976.

21 *The Economic and Political Growth Pattern of Asia-Pacific* (Honolulu, 1976), p. 61.

22 Angus Hone, "Multinational Corporations and Multinational Buying Groups: Their Impact on the Growth of Asia's Exports of Manufactures: Myths and Realities," p. 147. *World Development*, February 1974.

nationalization of foreign-owned industries for an "open" economy like Singapore's, vitally dependent on foreign capital and skills, appears to be well understood by both the leadership and electorate. At any rate, the current trend in most Third World and developing countries is not to nationalize foreign assets but instead to welcome foreign investment, although there has been well-publicized criticism of the multinationals.<sup>23</sup> The example of Sri Lanka, discussed earlier in Part I of this study, determinedly inserting a clause providing assurances against losses through nationalization in its White Paper on Industrialization is a case in point.

Economic nationalism is a vague term and in any case should not be used to describe any form of unfavourable response, however mild, to foreign investment and the foreign pressure. The case of the oil dealers, examined in Part IV of this study, should not be classified as a sign of economic nationalism. It is mainly a reaction to modernization and change, the rapid pace of which, and the accelerated manner in which it is carried out, has exacerbated latent antagonisms.

#### Transfer of Technology and Some Political Implications

Another relevant question is that of technology transfer. One of the basic strengths of a successful transnational lies in the fact that it possesses a secret manufacturing process or technology which it guards jealously since this gives it an edge of competitiveness over its nearest rivals. Such secret technological formulae and processes are not found only with high technology MNCs like those in precision optics and specialized electronics. These closely kept secrets are also regarded as an important key to success by low technology firms such as soap and

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23 An influential Malaysian view holds that the transnationals wield considerable power and unlike governments are not directly accountable for their policies and actions to a broad-based electorate. Attention was also drawn to an enquiry held by the U.N. on multinationals which was said to be the direct result of Chile's protests that the International Telephone and Telegraph Corporation had tried to prevent the 1970 election of President Salvador Allende. *New Sunday Times*, editorial, 27 June 1976.

toothpaste makers, who regard certain points of texture, colour and perfumery in combination with a carefully built-up brand image as the key to successful mass marketing.<sup>24</sup> Whether high or low technology, transnationals are loath to undertake joint ventures in host countries. Where equity participation by locals is 51% the proposal is usually rejected. Even if local shares are less than 50%, it may mean the enforced (legally or by ministerial persuasion) recruitment of nationals of the host country in key managerial positions after a period of time. The fear of the leakage of secrets, that is, the undesirable (from the particular MNC's point of view) transfer of technology to international competitors, especially those of East Asia, is a major factor in driving away transnationals of a certain type from host countries.

In Singapore there are two aspects to the particular problem. Where a high-technology firm clearly indicates that it does not desire local participation, its wishes are usually acceded to. This is a strong factor in attracting some high-quality industries in Singapore. Secondly, where the foreign investor perceives that the government or its officials are free of corruption, as is the case with Singapore, it feels that there are fewer constraints in operating a joint venture with local government participation. Thus government participation in Singapore in certain high technology industries has had the added spin-off in the willingness of some foreign groups to share some of their secret techniques. One recent example, reflecting both the question of technology transfer and government participation, is a joint venture between Singapore Government interests and U.S. interests in the manufacture of aerospace equipment and aircraft components using the still secret laser technology.<sup>25</sup>

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24 It should be noted that the earliest MNCs to arrive in the Singapore-Malaysian region in the early 1950s were not export-oriented, but in fact relied solely on the domestic market for their production of toiletries and other household nondurables which enjoyed strong consumer preference and "brand images" built up over decades of advertising. The operations of such MNCs resulted in a net outflow of capital, comprising the remittance of profits, from the countries concerned.

25 The source of this comes from discussions during the private conference, "The Economic and Political Growth Pattern of Asia-Pacific," organized jointly by the Pacific Forum (Honolulu) and the Institute of Southeast Asian Studies (Singapore) in Singapore, July 1976.

It should be noted however that the inflow of modern technology to Singapore does not necessarily mean that the knowledge is transferred to Singapore groups. Rather the Singapore economy benefits considerably from the manufacturing that goes on, using the imported technology. However, there is one view that states that, at certain levels, working alongside high technology groups accelerates the learning process for Singaporeans.

At the height of the scramble by foreign investors to be based in Singapore, in the years 1970-73, indigenous capital operating low technology and low value-added and labour-intensive industries - such as sawmilling and the simpler wood-based industries, textile-weaving and garment fabrication and the simpler forms of food-processing such as the bottling of soft beverages - was encouraged to move out to neighbouring countries where cheaper labour would place these labour-intensive enterprises on a firmer competitive footing. Thus while high technology foreign investment was moving into Singapore, locally owned capital was increasingly diverted to low technology and servicing industries and also began moving out to neighbouring countries. This trend, however, was partially offset by government participation in industry, and by the encouragement of joint ventures in selected industries where the foreign investor felt comfortable with the efficiency and integrity of his local partners. The trend towards increasing foreign dominance in certain key sectors of the economy and potentialities for oligopolism were to a certain extent met by the countervailing force provided by governmental participation in key industries. The advantages possessed by the MNCs, namely, access to large amounts of capital, higher technology and managerial skill,<sup>26</sup>

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26 The relative ease of access enjoyed by the large corporation to sources of technological and scientific innovation derives directly from its capacity and willingness to invest in technological improvements and from its expenditure on R and D (Research and Development) and participation in licensing agreements. For a discussion, see William Reinfeld, *An Economic Analysis of Recent Technological Trends in the U.S. Steel Industry*, Ph.D. Thesis, Yale University, 1968. However with increasing sophistication of infrastructure and local talents, coupled with relatively low costs, some MNCs may transfer part of the R & D programmes to Singapore. This may in turn lead to an even higher level of skill available in the local pool. One industry which may find this move useful is the pharmaceutical whose R & D need not depend on heavy and cumbersome laboratory equipment.

which were largely inaccessible to local industries were available to governmental projects by virtue of size and partnerships with specialized high-skill foreign firms. Seen in this perspective the economic ramifications of foreign investment in Singapore are within the present frame of reference, and at least in the short and medium-term mutually beneficial to both sides, namely, Singapore and the foreign investor. The meeting of the Singapore official attitude and Singapore's pressing needs on one hand and the needs and desires of the transnationals currently results in symbiosis, a relationship mutually satisfying, in terms of profits and economic growth, to a depth and an extent perhaps seldom encountered in industrializing countries.

#### Some External Political Ramifications

Inevitably foreign investment has had its political ramifications. In the Singapore context, there are two main aspects to this question. First, there is the connection between foreign investment in Singapore and the prevailing international political situation. Related to this is the direction of Singapore foreign policy. Secondly, there is the problem of the potential effect on foreign investment on Singapore's internal political situation.

The external, that is, international facet of the problem itself shows two aspects, both interrelated. First, there were during times of economic upsurge, such as that from the late 1960s to 1974, clear signs that investors from the different highly industrialized countries were actually competing with one another for entry into the few more desirable "offshore" locations of which Singapore was placed high on the list. For industries marked out as feasible and for the detail of choice factory sites, foreign firms vied with one another for entry and approval. Singapore's foreign ministry and economic planning apparatus took full advantage of this situation. Another aspect is the application by different kinds of industry for permission to set up operations in Singapore. In this situation, in the later phases (1968-73) of the industrialization programme the lower technology industries from Hong Kong, Taiwan or even simple "offshore" assembly operations by U.S. firms tended to lose out to industries with a higher technological input from the U.S., Western Europe and Japan. Also the success of large-scale U.S. investment, particularly in

petroleum-refining, at the height of U.S. political and military involvement in South Vietnam, opened the eyes of their Japanese competitors who began to take a new view of Singapore as an operational base which could significantly lower production and marketing costs.

Japanese investors began to regard large-scale U.S. investment in Singapore with its relatively low-cost facilities as a direct threat to the Japanese in the U.S.-Japanese competition in the world market. Similarly, this international rivalry, which Singapore adroitly took advantage of, was manifested in West German, Dutch and Swedish firms taking firm steps to locate in Singapore. One of the most important reasons for their entry into Singapore was to meet the Japanese encroachment on the traditional West European markets by selecting a base with facilities, including labour, which was not only highly trainable, but also considerably cheaper than the Japanese. The Japanese had enjoyed a wide margin of competitiveness over their West European rivals in view of their considerably lower wage costs. In this competition on an international scale by the highly industrialized countries for advantageous offshore locations, Singapore stood out as one of the choicest sites available, and benefited accordingly.

The "external" or international aspect of Singapore's industrialization also has its broader political and strategic implications. The invitation of differing sources of foreign investment by the Singapore Government was in microcosm an expression of and a reenactment of a modified form of the Balance of Power principle. In this case, instead of political and military power, the involvement was more with economic power, but nevertheless with political and perhaps even military, particularly naval, and strategic overtones. The withdrawal of the British armed forces from its Singapore bases left an entrepôt economy that was weakened by the disappearance of that part of the tertiary sector which had provided goods and services to the British military establishment and which had contributed substantially to the Singapore GNP. In addition to the defence vacuum<sup>27</sup> there was an almost total lack of industrial enterprises and a looming unemployment pattern of major proportions.

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27 Singapore began to remedy this almost frantically by the build-up of its own armed forces under Israeli advice and based largely on the Israeli model.

Foreign investment and industrialization from one source would have placed the economy too much under the influence of one industrialized country. It was the U.S. which was the first major industrial country to invest heavily in Singapore. This investment, and the welcome extended to it by the Singapore Government, appear to have been linked to the surmise that the then total U.S. involvement in the Vietnam War was a firm reminder that the U.S. was not going to opt out easily from Southeast Asia. Going further, the rationale was that the noncommunist "backing-up" countries of Southeast Asia could be strengthened politically and economically in their supportive role towards U.S. policies, and immunized to varying degrees against their own underground insurgencies and revolutionary movements, if there were increased trade and investment to build up the strength of their economies and to ensure increased growth rates.<sup>28</sup> Trade not aid, the latter becoming increasingly held up as *infra dig* for "respectable" developing countries, was a phrase coined to sum up the need for a mutually beneficial economic arrangement between developed and developing. Singapore had always rejected the donor and recipient state of affairs which had been an important part of U.S. foreign policy in its attempts to seek and consolidate allies against what it perceived as its enemy - international communism.

In this search for investment, rather than aid, the U.S. was initially at least the most important, and readily forthcoming, source of investment and technical expertise. The EEC countries, Japan, Sweden and Australia followed with varying volumes of investment. Encouragement of investors from as many countries as possible was a keynote in the Singapore policy of openness to all desirable sources of investment. The People's Republic of China, through its Bank of China, was also welcome to do business as was the

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28 The political argument for investment and trade with the West was further emphasized in a radio interview broadcast from Cologne (Deutschlandfunk programme, Current Themes, 28 July 1976) in which Prime Minister Lee Kuan Yew urged the West, including the EEC, to open their markets more to countries like Singapore and not to be pressurized by their trade unions to formulate restrictive trade and import policies. The reason given was that such trade would help Southeast Asian states like Singapore against underground revolutionary movements. See *New Nation*, 29 July 1976, and *Straits Times*, 30 July 1976.

Bank of America, although the PRC, an important trading partner, was not an investing country. Soviet involvement through participation in shipping ventures and deep-sea fishing projects, as well as in the Moscow Narodny Bank were also approved and trade with East European countries has been encouraged. Singapore's openness in economic and trade relations has in the past caused friction with Kuala Lumpur, and may in the future be looked askance upon, by its neighbours.<sup>29</sup>

In the field of foreign investment, generally, it was believed that the interests of the various investing countries and multinationals would tend to cancel each other out, so that no single group could be strong enough to exert any political pressure on the Singapore Government. It was also theorized that when the investments of so many advanced and militarily strong countries were involved, Singapore's strategic future and military safety could, to some extent, be secured. Thus, the scenario goes, if a leading global power felt that its investments in Singapore were threatened by regional or internal political and insurgent turbulence, it could have a *casus belli* to intervene to safeguard its interests in Singapore. Such intervention, in the context of Singapore as a small, relatively weak country, would not be unwelcome to the Singapore leadership.

In this context, the coastal oil refineries of Singapore, comprising the third largest refining complex in the world, sited astride an oil route vital to Japan, the Philippines, Thailand, South Korea and Taiwan, and serving a large noncommunist regional market, is a strategic target with global implications and is thus in a way an

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<sup>29</sup> In the period of federation with Malaysia, Tunku Abdul Rahman, then Malaysian Prime Minister, accused the PRC of funding subversive forces in Malaysia. The Singapore branch of the Bank of China, the PRC's governmental bank, was thought to be channelling funds to revolutionary elements. In mid-1965, Kuala Lumpur authorities threatened to close it down. After separation later in 1965 the local Bank of China continued operations. See Yuan-li Wu, *The Strategic Land Ridge* (Stanford, Calif., 1975), pp. 40-41. Singapore with its tradition and desire for open trade with all had opposed the closure move. The PRC regarded this as a sound economic move and a friendly act. *New China News Agency*, Peking, 13 August 1965.

"international responsibility". Any strategic threat to the oil-refining facilities would be a direct threat to Singapore and its economy. Conversely, any direct threat to Singapore militarily would threaten a vital source of refined petroleum products in the Southeast Asia, East Asia and Australasian region. Both sets of circumstances would invite an armed response from interested naval powers, chiefly the U.S., and perhaps Japan in the future.

The withdrawal of the Royal Navy from East of Suez would, as far as Singapore was concerned, be partly compensated for by the creation of an increased strategic interest of the significant naval powers in the security of Singapore. This policy sought to maximize the number of naval powers, including the Soviet Union, interested in the accessibility of the waterways around Singapore. In such a situation of an international balance of involvement in Singapore's foreign investment and economic growth, a relatively modest Soviet investment in a deep-sea fishery project based in Singapore with ancillary cold storage and marketing facilities assumes a potential strategic significance far beyond the size of capital input involved. Whether it is a petroleum refinery or just a sea-food cold store and fishmeal plant, there is justification by naval superpowers to transit fleets of radar-equipped trawlers through crucial Southeast Asian waterways and generally to show the flag from time to time.<sup>30</sup>

The international involvement had by mid-1976 shown the potential rivalries and types of competition that might arise in the future. The PRC has strongly accused the Moscow Narodny Bank as being the instrument which a new Soviet "economic imperialism" was seeking to penetrate and eventually subvert the economies of the region. Significantly, the indigenous businessman, short of capital compared to his foreign counterpart, has to some extent benefited from Moscow Narodny's reported generous loan policy. By capitalizing the indigenous, mainly Chinese, entrepreneur the Russians would earn some gratitude in the local entrepreneur's struggle against his bigger foreign competitor. By working through and using the Chinese interpersonal business network it both strengthens the network and itself gains a foothold in the Southeast Asian commercial and entrepreneurial field which

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<sup>30</sup> For other comments on the wider maritime issues, see George G. Thomson, *Problems of Strategy in the Pacific and Indian Oceans* (New York, 1970).

it would otherwise have had great difficulty in penetrating.<sup>31</sup> Again by giving out generous loans and recalling them at crucial junctures (Chinese businesses traditionally depend critically on borrowed money and a generous credit system) it would in theory gain control of a number of enterprises, thus initiating a sphere of Soviet commercial and industrial interests in Southeast Asia centring upon Singapore. The PRC's overriding concern about Soviet "encirclement" will be all the more heightened by fears of Soviet economic penetration in Southeast Asia. Unless due precautions are taken, Singapore as an open financial centre may become the cockpit for a PRC-Soviet economic conflict in the region.

The balancing of economic interests advantageous in many ways also invited economic penetration by powers which might regard economic investment merely as a vehicle for political influence. Traditional colonial powers made it a point that trade followed the flag. The newer expansionist powers may perceive that it could be possible for the flag, or at least the flag's enhanced prestige and influence, to follow a successful scheme of trade. In this kind of situation where big powers are involved, this policy of adopting a modified version of the concept of the balance of power applied in economic and investment terms calls not only for business acumen but also interstate diplomacy of a very high intellectual level.

#### Internal Sociopolitical Ramifications

The internal political and social implications of large-scale foreign investment in Singapore are equally farreaching, though less easily discernible. Earlier in this paper, the problem faced by local entrepreneurs, usually operating on a small and medium scale, has been discussed. Such pressures as that exerted on the local businesses by a volume massive in terms of Singapore's small population bring both beneficial and adverse effects. The large MNCs demand a wide spectrum

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31 In one case made known to the writer, a Soviet machinery export agency sold heavy machinery to a joint Singapore-Malaysian venture on generous low interest terms, repayable over four years and starting with a 10% initial payment. The cost was about half that of the lowest Australian offer and two-thirds that of a Japanese bid. In addition, free engineering and technical advice were available for a prolonged period. All costs of the visiting engineers were borne by the exporter.

of goods and services, from housing and domestic help for their executives to industrial services, products and components which accrue from what are usually termed "back-up" or supporting industries. Many small and medium local enterprises have benefited from this demand created by foreign investment. Often, although working as subcontractors, they are taught certain production procedures in order to reach a product standard acceptable to the MNC concerned. The spin-off effect has created many smaller local industrial ventures, but the scope for more back-up industries remains.

On the reverse side, the pressures on local capital and entrepreneurial talent have meant some flight of Singapore capital and skills, albeit of low technology, to neighbouring countries. The safety valve has to be found in countries less developed than Singapore. More significantly, such pressures exerted within the compressed time-frame of industrialization mentioned earlier, have meant that in order to survive some local business and industrial ventures have had to go into partnership with foreign investors. Whether or not the majority of such ventures are foreign-dominated and their effects on local partnerships have yet to be examined. But on the positive side, such partnerships do lead to a transfer of skills and industrial knowledge, and modern manufacturing process, though not necessarily the patented high technology formulae which are usually secret, to the local group concerned. However, it is with some of the smaller local businesses that the pressure of foreign investment and corporate management is felt most. Such pressures could have been exerted by large local capital-owning concerns whether private or institutional, like trade unions. For example, the growth of modern supermarkets had led to competition with the small provision shop retailers who are unable to buy their stocks at the same rate of discounts that the chain stores obtain because of their bulk purchases. Nor can the shopkeeper obtain the favourable credit terms which banks give to the established chain stores.<sup>32</sup> One kind of possible conflict is indicated

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32 This trend towards concentrating small retail units into larger modern ones has been described colourfully in the context of Thailand: "The time may not be very far removed when the traditional market gives place to the supermarket, bargaining to the cash desk, and the wicker-work basket or banana leaf to the aluminium trolley or wire basket." *Thai Investor*, February 1969.

in an earlier part (Part IV) in this study, on multinational oil companies and their retailers. In this case study, differences in cultural values and a polarity of perceptions on the question of how businesses should be conducted appear to be at the root of the problem. Significantly, in this case the racial overtones appear to be overshadowed, in the minds of the retailers, by cultural differences between the retailers and the locally recruited management personnel with whom they have to deal. The old problem and the well-known resentments towards the compradore of the China coastal and Treaty ports at the end of the last century and the first three or four decades of this, appear to take a new but considerably more modulated form in Singapore. Scapegoatism may be relevant here. It is easier to direct resentment against the middle-rank local manager close at hand than the white Caucasian, inaccessible and remote. It is important to note that this particular area of friction concerns the group of MNCs that have operated in Singapore for the longest period and who are the heaviest investors in Singapore. The Singapore retail sales are of only marginal interest to the export-oriented oil companies, but the roots of conflict parallel those incipient in Malaysia as well as Thailand and deserve further study.

Also it should be noted that although retail sales in Singapore are only of minor interest to the oil MNCs whose integrated activities range globally from wellhead extraction, bulk transport, refining and related industries to bulk and retail marketing, none the less it is the petrol station with its distinctive trade mark which catches the public eye and whose activities are associated directly with the MNC in question. Thus friction between MNC and petrol dealer may appear to some to be more than symbolic of a basic clash between foreign investor and the small local man.

Such conflicts are necessarily a part of the general process of the rapid modernization and rationalization, in a compressed time-frame, of business whether merely retail or large-scale industrial. The polarity of the folk and tradition-orientation with stress on interpersonal ties, on one hand, and future and modernistic-orientation, emphasizing efficiency with a businesslike impersonality on the other, lies at the core of this part of the problem. Generally it would appear that conflicts between foreign influence and indigenous interests are at this lower level, exemplified in the oil dealers' case rather than at governmental level. This contrasts with the endemic governmental conflicts with foreign investors in some neighbouring

countries. With the overwhelming dependence on foreign investment and skill for its industrialization and its exports, it is unlikely that the Singapore leadership would tinker with what constitutes currently a mutually beneficial relationship.

More to the point is the position of local capital vis-à-vis foreign investment. So far no signs of conflict have appeared, as both have found niches in an expanding economy. However, it may be necessary for the government to arrange, and some of the MNCs to agree to, some form of local capital participation even if it be at minority shareholding level. At another level, some form of working relationship and mutually respected accommodation should be sought for the expanding governmentally-owned sector of commerce and industry and the foreign investor. The problem for the government here is to balance the national interest, which is to maintain some hold in each key sector of the economy and to forestall oligopolistic or monopolistic tendencies by the MNCs and yet to continue to foster the climate of confidence which has so far been so successful in Singapore's bid for the large MNC. Government involvement in key industrial sectors, financial assistance to smaller local or joint ventures seeking to move upwards technologically and encouragement of local equity participation and local involvement in MNC branch management are avenues which could be profitably followed. In the internal facets of foreign investment in Singapore, a high degree of statesmanship and personal diplomacy will be needed in the near future.

#### Some Important Social Problems

The intrusion of foreign influences, exemplified not only in higher work skills but also in social mores and generally "Western" attitudes to life, in the train of foreign investment has made Singapore, already a port-city open to external influences, suddenly confront a mass of new customs and outlooks which bring in their train radical modifications of local behaviour.

Anthropologists have long noted that the introduction of one technique or cultural trait inevitably brings in its wake a whole series of changes and modifications to the recipient's society's way of life. It was left to Arnold Toynbee to dramatize to the world the effects of such

introductions.<sup>33</sup> Thus the Asian countries, in their desire to have a modern army and navy capable of matching the strength of the West, found out that they needed modern repair yards, western-trained engineers, western-trained officers and western-style uniforms. Railways were needed to carry the heavy ordnance to the naval yards and western-trained officers in western-style uniforms to handle the artillery. Furthermore, modern hospitals were needed to treat the sick and wounded. With the hospitals came western medicine, London-trained doctors and "western" sanitary habits. In the case of the Ottoman Empire, with western-trained military officers came new Western ideas and political thought.<sup>34</sup> The continuing sequence of change in the end was part of the modernization process of Turkey. As Toynbee has pointed out, each culture is an integrated whole. It would be difficult, if not impossible, to detach one element from a culture and neglect the rest of the traits that the culture offers.

In Singapore, the MNCs no doubt came to a society already exposed to western ways and receptive to western ideas. This was in fact one of the attractions of Singapore as a manufacturing base for the MNCs. But the advent of the MNC and the large volume of foreign investment accelerated the process of change. So much so that, with widespread use of the English language, the Singapore professional and middle-class have a kind of international outlook which is both a source of strength as well as weakness. New ideas and techniques are absorbed readily and rapidly enough. But hand in hand goes the absorption of what can be best termed the "negative" aspects of western culture. There is no need here to elaborate on the well-known theme of the "decadent" aspects of western social mores. But suffice it to say that foreign investment (and the accompanying foreign personnel and their families) brings in its wake a whole train of habits which may not be conducive to a striving, forward-looking society. Thus, a certain school serving the needs of a major foreign community has a very high proportion of drug addiction. A premier boys' school into which the sons of the élite strive to be admitted also shows a serious drug addiction problem. In more ways than one, does the élitist middle class show the way to social change. This is manifested

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33 A.J. Toynbee, *The World and the West*, BBC Reith Lectures 1952 (London, 1953).

34 *Ibid.*, p. 25.

in a spectrum of habits from hankering after the prestigious ideal of regular holidays abroad, itself a status symbol in Western society for many decades, to a positive willingness to sacrifice heavily for private tuition of their young so that they can achieve international standards of competency and in the process unconsciously add to the country's human assets. Ostentation is abhorrent to state policy and bureaucratic norms. However, the new middle class tends to behave differently, reflecting perhaps values, physically contiguous, yet in nature markedly different from those officially espoused. Socially speaking foreign investment has as one of its less desirable concomitants the introduction of what can be regarded in Singapore as antisocial ways. This is in addition to the social abrasiveness induced by the heavy and sometimes ostentatious spending of foreigners and foreign tourists. However, the high standards of technical competency demanded by industrialization and the MNCs have led not only to general upgrading of skills but also to a further boosting of the traditional Sinic and Tamil desires for improvement through education.

Mass advertising and high-pressure salesmanship have often been condemned as creating a consumer society desiring unnecessary goods. In the context of agricultural societies, such forms of high pressure marketing if relegated to the fields of pesticides, fertilizers, seeds and simple farm machinery have a beneficial and productive effect on production and society, conducive to growth. But in Singapore, mass advertising seeking to "create desires" where none existed before,<sup>35</sup> and the hard-sell do in fact show the more negative facets of the creation of a consumer society imbued by value systems such as the high value of conspicuous leisure, conspicuous consumption, luxury generally in addition to trivia such as the obsession with a certain type

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35 Advertising campaigns and themes are normally tailored, for lowered production costs and ease of global marketing plans, to "international requirements" by international agencies that serve the MNCs and other marketing companies. There is now a trend to "local content", that is, using local models, but the approach and the values extolled remain essentially "international", that is, Western. With such a heavy input of advertising material over the mass media, including imported magazines, the problem of sifting out "undesirable" cultural traits is a daunting one.

of trousers, soft drink, soap or hairstyle.<sup>36</sup> Seen in this light the Singapore Government's symbolic stand against long male tresses may be a forlorn gesture, defiant no doubt but having the near impossible task of stemming the tide of the package deal of western cultural values. And yet to follow the drift of western cultural trends is sooner or later to be confronted by the dilemma of whether or not to legalize the enervating consumption of marijuana already beginning to be considered a harmless relaxant compared to harder drugs like heroin, by some western opinion leaders. One argument is that if the younger generation takes to marijuana instead of alcohol, and if the change in habit trends cannot be effectively controlled then it would be more logical to legalize it than to waste time and funds attempting to stamp out the habit "of the people."

To be among the first of Asian countries to adopt this permissiveness would perhaps spell the end of Singapore's competitiveness in business affairs. To be near the top of the Asian league in terms of importing western technology is highly desirable, but it also puts Singapore in the vanguard of a kind of social change from which little can be learnt from earlier examples.

The problem is one of balancing a receptive openness with a sifting out of the less desirable elements brought in by foreign intrusion. Singapore's problem is to maintain openness to foreign investment and skills and yet be closed to the less desirable social consequences of the foreign intrusion. To say that the problem is a very difficult one is merely to understate the whole matter. A country with an open economy cannot really decide on a policy of "a minimum dose of Westernization," since western civilization, or "any civilization, any way of life is an indivisible whole in which all the parts hang together and are interdependent."<sup>37</sup>

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36 Thorstein Veblen's observations of the habits of U.S. and western society early in the century and his concept of "conspicuous consumption" holds true today for segments of Singapore society. Thorstein Veblen, *The Theory of the Leisure Class* (New York, 1957). What is loosely termed western culture is itself changing fast. Singapore society, apart from the desired industrial skills and the more trivial traits, tends to ignore or miscomprehend other aspects of Western culture.

37 A.J. Toynbee, *op.cit.*, pp. 25-26.

The openness to the world economy, the widespread knowledge of English and the high skills are an advantage in the race for foreign investment but viewed in another context have long-term detrimental implications. The next world economic upsurge may see an exodus of these trained cosmopolitan English-speaking Singaporeans to the industrial centres of the Anglo-Saxon world where a combination of high salaries, new opportunities, and a high, glamorized standard of living would serve as a persistently strong magnet for a potential brain drain from Singapore. With human resources as its only physical asset, such a movement if sustained, would lead to grave consequences for the country.

The influx of foreign skills, welcome as it is, has to be carefully watched lest in time to come it is matched by a brain drain from Singapore in search of better opportunities overseas. MNCs pay better salaries than their local competitors (in fact local firms tend to lose their skilled labour to foreign firms) but nevertheless, the best-paid posts are reserved for personnel from the MNC's main bases of operation. It would appear that original home-base of the MNC is relevant to this problem. Thus it is conceivable that an American MNC could appoint a local as its Singapore chief executive. Most British or Dutch MNCs might find this more difficult to fit in with their personnel policies. A Japanese firm would probably never carry out this step. For an European, Japanese or American employee of an MNC (as at one time with the British and Australian armed forces) posting in an "exotic" country is a major fringe benefit and Singapore is regarded as a desirable, modern country set in an exotic region.<sup>38</sup> Maximum utilization of local personnel, advantageous in terms of cost benefits, is retarded by a tendency also of the MNCs to use their overseas subsidiaries as training grounds for their own head office staff.<sup>39</sup>

At the other end of the scale, industrialization has brought into Singapore large numbers of workers, predominantly

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38 One MNC has in recent years abolished the so-called "hardship allowance" for its London-based expatriates when they take up positions in Singapore. This allowance still applies to some Asian and most African countries.

39 Ingo Walter, "Foreign Subsidiary Operations: Adverse Reaction and MNC Response" in Stephen Chee and Khoo Siew Mun, *op.cit.*, pp. 22-23. For a discussion of the position of the multinational manager in the host country, see Thomas Aitken, *The Multinational Man: the Role of the Manager Abroad* (New York, 1973).

Malaysian. Currently it is estimated that there are some 40,000 of these immigrant workers, a decline from the period 1971-73 when the economy was undergoing unprecedented growth. These consist both of skilled as well as unskilled workers. The skilled workers, many of them Chinese chiefly from Perak in Malaysia, are hardworking and a definite asset to the economy and will require political foresight and acumen to retain once Malaysia itself begins to industrialize. The unskilled ones do the more unpleasant jobs which Singaporeans disdain. At present some Singapore youth can afford to take this attitude because of the ready supply of Malaysian migrant workers. Continuance of this phenomena could lead to sections of Singapore society becoming "soft" and choosy about their jobs. Some are reported even as asking for air-conditioned factories when applying for vacancies through the Labour Ministry. Continuance of this attitude by Singaporeans may mean that the country will become a training ground for higher industrial skills for transient workers. Industrializing Malaysia will stand to benefit from this. Conversely the time may come when Malaysia will regard the out-movement of its manpower as an undesirable brain-drain and take restrictive measures which could be detrimental to Singapore's interests.

The accelerated industrialization brought about by foreign investment has, socially speaking, caught Singaporeans unawares. The compression of the time-frame wherein fundamental changes have taken place has also left many Singaporeans with vacillating values and oscillating options. One danger is that in a highly competitive international situation, Singaporeans, of both middle and working classes, may adopt lackadaisical attitudes towards work which the country can ill afford and which have characterized nations on the economic downgrade.<sup>40</sup>

It can be seen that, economically, in terms of manufacturing and export marketing, foreign investment is an undisguised asset for Singapore. Politically the

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40 The current and future problem is to make Singapore youth more amenable to taking up the more arduous jobs. (See Prime Minister Lee Kuan Yew, text of address, NTUC Second Triennial Delegates Conference, 25 April 1976). The paradoxical situation is one where, in periods of economic slackness, large numbers of foreign workers remain employed whilst citizens are unemployed or else are unwilling to take up physically strenuous and unpleasant work. This reflects the beginning of a grave social problem.

ramifications run wide and deep, internationally and internally, and will need statesmanship of a high order to keep things in trim. Socially, it would appear the effects of foreign investment are to some extent negative.

### Resolution of Potential Conflicts

The resolution of potential conflicts of this nature can be jointly resolved by governmental and corporational co-operation. Local sensitivities, misconceptions and traditional business methods will have to be studied more carefully and taken into account in corporational dealings with local groups.

However, not all groups are affected by the modernization brought about by foreign investment in the same way. Unlike the petrol dealers, food hawkers are buffered from direct dealing with MNCs. Hawkers are one of the groups which have benefited considerably from the changes wrought by industrialization. They have in fact got an improved deal by relocation in modern premises, at public expense. No doubt, they serve a social need, providing food at prices lower than other establishments, and as such have received public aid, directly in provision of utilities and indirectly by the nonlevying of income tax by public bodies which usually take a punitive view on such matters. Hawkers have escaped the pangs undergone by other "cottage" groups in the process of accelerated industrialization. In the mix of attitudes and eating habits that characterize the Singapore way of life they are one of the few traditional groups that have prospered from the affluence brought about by industrialization. Other groups may view the hawkers' exemption from income tax as corruptive and a source of electoral resentment.<sup>41</sup>

Some new outlets for local capital and entrepreneurship will have to be encouraged. In this context, the government as the largest land and housing developer has, in its efforts to supply working and middle-class housing needs, further narrowed the scope available to local capital.

Government and MNCs may have to work together to erase the impression that the planners prefer the MNC to the local entrepreneur. For example, MNCs can be encouraged to support

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<sup>41</sup> The situation would be aggravated if such narrow lobbyist groups, e.g. hawkers, inserted themselves into democratic machinery at grass-roots level, posing as representatives of the people.

new back-up industries which serve them, and which may even grow into export industries themselves.

Some kind of balance will have to be found between the MNC view of the desirable local proportion in its management aggregate with local middle-class and professional aspirations. In relations with labour, the leading MNCs from Western and Northwestern Europe with their progressive staff welfare outlook and mutual consultative floor procedures could set the pace for further improving employer-employee relationships both in foreign as well as local firms. Some Western European employers are slightly discomfited by what they perceive as the absence of an healthy trade union movement.

Generally, considering the compressed time in which accelerated industrialization took place, the stresses and strains on the social system have been minimal, due largely to a receptiveness in the Singapore outlook towards extraneous influence and to the efforts of the bureaucracy.

#### A View of Possible Trends

The Western and industrialized nations, the sources of foreign investment, are in a strong position to wield such investments as an incentive for recipient countries to follow "moderate" policies, internally as well as in international relations. In Singapore, the leadership is fortunate that the electorate is well disposed towards foreign investment and has been educated as to its indispensability for Singapore's economic well-being. This applies to all sections of public opinion and contrasts sharply with the situation prevailing in some other Southeast Asian countries. The mass media can be further used to manipulate public opinion so that it continues to be receptive to the idea of continued foreign investment. This in turn creates a climate that engenders the interest of foreign investors. To some, Singapore has been appropriately "moderate" in its postures. Foreign capital will, if present policies continue, be effectively utilized for production accompanied by an avoidance of ostentatious, unproductive projects.

The Lockheed scandal that shook the U.S. and Japan in 1975 and 1976 is another reminder of the influence that MNCs can wield and the international character of wide-scale corruption. Corruption is an ever-present danger in a society like Singapore where the trading outlook and the desire for the rapid making of profits, by whatever means,

still holds attraction for many. That, so far, it has been relatively free of corruption and red tape was a major asset in bringing in foreign investors.

There is little doubt that Singapore needs the foreign investor for a long time to come. In order to maintain its position as one of the more desirable places to invest in, the imponderables of the continuity of the high quality of leadership will have to be taken into account. The leadership will have to come to grips with problems both of political experimentation, in terms of representation of electoral wishes, as well as control of certain social trends. One problem is to steer away the tendency, particularly amongst the middle classes, to follow the yardsticks in living comfort, leisure and material lifestyle of Australians, North Americans and the British without an accompanying strength of national purpose, high creativity and productivity. Further, it should be decisive enough to resist pressures from lobbying groups such as hawkers' associations whose interests are directly opposed to rationalization of distributive systems and the release of manpower for industry.

If this can be achieved by the second generation leadership and if they can continue to be surgically incisive against corruption, even when close relatives are involved, then the chances for Singapore remaining the prime investment centre of the region are good. The nurturing of a second-generation leadership to a quality equivalent to that of the old guard is a problem with its intangibles which will have imperatively to be carried out with unqualified success.

The fashioning of an all-powerful anticorruption unit with necessary legal checks and balances is the lesser of the problem, even though in a single family there may be representatives of both an efficient bureaucracy and a business community in which payment in cash or in kind for favours done, or expected to be done, is part of the way of life.

The factors of a high quality and consistently purposeful political leadership and an efficient corruption-free civil service have set Singapore apart from the rest. In order to maintain its industrial and financial competitiveness these factors must be nurtured and retained.

Large-scale foreign investment in Singapore within a short time can be assumed to have helped avert a situation of social turmoil, or even regimented living under greatly reduced material circumstances. However, this large volume of foreign investment in a compressed period of time, has in its turn brought about attendant problems, subtle in outline and elusive in their evolving forms.

The new bureaucracy, privileged to sit astride both the traditional civil service duties as well as the demands of the balance-sheets of the boardrooms of the new governmental industrial and commercial ventures, is sowing for itself the seeds of a long-term problem containing a self-contradictory dualism. For there are basic differences in the way a civil servant of the old school and the new boardroom director should behave. It was the strict adherence and almost reverential attitude to the behavioural code listed as the old British-style "General Orders" which may have given the Singapore Civil Service much of its administrative strength and innate resilience, especially against corruptive influences. Governmental involvement in commerce and industry, whilst aiming to protect broad national interests in the voluminous tide of highly welcomed foreign investment, has in turn brought into close alignment the dichotomous problem of continued high efficiency of the bureaucracy, reflected in a personally detached and morally austere outlook, and antithetical attitudes engendered by the call for increased profits in commercial enterprises. Needless to say these commercialized, aggrandizing attitudes bring with them a lifestyle and scale of values different from those of the traditional civil servant's.

When salaries of senior civil servants were raised to bring them more in line with commercial salaries (in itself a significant move in terms of a long-term immunization against corrupting influences and making Singapore official salaries unusual in this respect) the Prime Minister stated that Singapore's achievements had rested on the shoulders of no more than several score individuals in the bureaucracy. More so than ever now, and particularly in the light of the continuance of Singapore as a site attractive for foreign investment, these several score individuals will act out a key role made much more taxing by the blending of a controlled, but none the less genuflective, response to the outright profit motive with that of the upright governing posture.