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Singapore: Background and U.S. Relations

Emma Chanlett-Avery
Analyst in Asian Affairs
Foreign Affairs, Defense, and Trade Division

Summary

A former colonial island trading and military outpost of the far-flung British Empire, the tiny Republic of Singapore has transformed itself into a modern Asian nation and a major player in the global economy. Singapore's heavy dependence on international trade makes regional stability and the free flow of goods and services essential to its existence. As a result, the island nation is a firm supporter of both U.S. international trade policy and the U.S. security role in Asia. In July 2003, the U.S. Congress passed the U.S.-Singapore Free Trade Agreement (FTA) Implementation Act, which will eventually eliminate tariffs imposed on all goods, cover trade in services, and protect intellectual property rights. See CRS Report RL31789, *U.S.-Singapore Free Trade Agreement*, by Dick K. Nanto. This report will be updated periodically.

Historical Setting

An island city-state located astride key shipping lanes at the southern tip of the Malay Peninsula, Singapore's economic and strategic importance far exceeds its small size. Founded in 1819 by British East India Company official Sir Thomas Stamford Raffles, Singapore's free trade status has been a major factor in its success. Singapore achieved home rule in 1959 and joined with Malaya, Sabah, and Sarawak to form the Federation of Malaysia in 1963. Within two years, friction between the Malay-dominated federation government and the Chinese-dominated Singapore administration led to the separation of Singapore from Malaysia. Amid serious doubts about its viability, Singapore became a separate independent nation on August 9, 1965.

SINGAPORE STATISTICS

Population: 4.3 million
Area: 647.5 sq. km. (about 3.5 times the size of the District of Columbia); one main island and 58 islets; extensive land reclamation
Ethnic Groups: 77% Chinese; 14% Malay; 8% Indian; 1% other
Language: Chinese (official); Malay (official and national); Tamil (official); English (official) widely used in business, professions, and schools
Life Expectancy at Birth: female, 84 years; male, 79 years
Literacy: 92.5%
Inflation Rate: 0.5% (2004 est.)
GDP (PPP): \$109.4 billion (2004 est.); *Per Capita* \$23,700 (2004 est.)
Trade: exports \$142 billion (U.S. 14.8% - 2004 est.); imports \$121 billion (U.S. 14.1% - 2003 est.)
Source: CIA World Factbook



Government and Politics

Singapore's parliamentary-style government is headed by the prime minister and cabinet, who represent the majority party in Parliament. The president serves as a ceremonial head of state, a position currently held by former Singapore ambassador to the United States S.R. Nathan. In August 2004, Lee Hsien Loong succeeded Goh Chok Tong as prime minister. Lee is the son of former Prime Minister Lee Kuan Yew, who stepped down in 1990 after 31 years at the helm. The senior Lee, widely acknowledged as the architect of Singapore's success as a nation, reportedly continues to wield considerable influence with the title of Minister Mentor. The composition of Lee Hsien Loong's cabinet, largely a reshuffling of officials already in power, indicates that he does not plan to undertake any sweeping changes as he takes office.

In the last parliamentary elections in November 2001, the governing People's Action Party (PAP) swept to an easy election victory, winning 82 of 84 seats. Singapore has universal suffrage, and parliamentary elections are held at least every five years. The PAP has won every general election since 1959, aided by a fragmented opposition, Singapore's economic success, and electoral procedures that strongly favor the PAP. The two opposition seats captured in 2001 were won by a Workers' Party candidate and a Singapore People's Party (SPP) candidate. The National Solidarity Party (NSP) was given an additional seat in Parliament under a constitutional provision that grants a seat to the highest-scoring minority party if less than three opposition candidates are elected. Lee is expected to call elections soon in order to secure an electoral mandate.

Economy

Aside from having the world's busiest port in terms of shipping tonnage, Singapore has the world's second largest container-port, one of the world's top-ranked airports, modern expressways, and an up-to-date mass rapid transit system. For more than two decades until the 1997 Asian financial crisis, the country achieved annual growth rates of 8-9 percent. In recent years, it has emerged as the fourth largest foreign exchange center in the world (behind London, New York, and nearly even with Tokyo), as well as Asia's third largest financial services center (behind Tokyo and Hong Kong). Singapore's major industries include electronics, particularly computer peripherals; petroleum refining and petrochemicals; construction; food and rubber processing; and shipbuilding and repair. The government plays a major role in directing the export-oriented economy and providing infrastructural support for the strong manufacturing and services sectors.

Foreign Investment. With little room to grow, an acute labor shortage, and capital surpluses that it needs to invest, Singapore increasingly has looked abroad to sustain its economic growth. Highly successful growth triangle projects with neighboring Malaysia and Indonesia in the 1980s were followed by a major regionalization drive begun in the 1990s. China, India, Vietnam, and Burma all have become targets for Singaporean entrepreneurs, who enjoy strong support and encouragement from such government agencies as the International Enterprise Singapore and the Economic Development Board. By 2002, Singapore had invested an estimated \$70.78 billion abroad, largely through a government-owned holding company. Singapore is a major investor in China, Malaysia, Burma (Myanmar), Thailand, and India.

Asian Financial Crisis. As a result of growing economic ties to its neighbors, Singapore has become increasingly sensitive to fluctuations in regional prosperity. Despite the strong management of the Singapore economy and financial sector, the growth rate for 1998 fell to 1.3% after the Asian financial crisis, down from 8% in 1997. The Singapore government responded to the crisis with a series of measures designed to cut business costs, stimulate the economy, and make Singapore more competitive and attractive to investors. The Singapore GDP growth rate recovered to 5.9% in 1999, and soared to 9.4% in 2000.¹ Financial analysts attributed Singapore's quick turnaround, in part, to the strong U.S. economy and the improving regional economies. They noted, however, that Singapore's well-managed economy and aggressive reforms had enabled it to weather the crisis and remain competitive.²

Economic Setbacks and Recovery. By July 2001, the global economic downturn had pushed Singapore into a technical recession (two consecutive quarters of contracting GDP). The continuing slump in the major world economies was further exacerbated by the September 11 terrorist attacks on the United States. Singapore's export-driven economy was particularly hurt by the decline in demand for electronics, which account for two-thirds of its exports. The SARS epidemic and the war in Iraq caused the economy to contract further in 2003. Indications of an economic rebound began appearing in May 2004, however: exports, particularly in electronics and

¹ Asian Development Bank, [<http://adb.org/Documents/Books/ADO/2003/sin.asp>].

² Amit Prakah, "Singapore's Economy Grew by 9.9% in 2000," *Asian Wall Street Journal*, February 23, 2001.

pharmaceuticals, expanded by double digit growth rates and unemployment eased slightly. The economy was estimated to grow by 8.6% in 2004, but to slow to 4.7% in 2005.³

Regional Linkages. As a trade-dependent economy, Singapore has adapted its strategy as the Asian economic landscape has shifted. Because Singapore's economy depends heavily on external conditions, the U.S. recovery and China's growth have sparked Singapore's rebound. Conversely, however, Singapore also remains vulnerable to potential economic problems in China. China plus Hong Kong overtook the United States as Singapore's second largest trading partner in 2003, increasing from 12.4% in 2002 to 14.2% in 2003. Singapore has also taken steps to shore up its economic relations with other neighbors: friendly overtures to top trading partner Malaysia have improved prospects for further cooperation, deals with India to link its consumer market and technology industry with multinationals are flourishing, and free trade agreements (FTAs) have been concluded with Australia, the United States, Japan, and New Zealand. Singapore is actively seeking further FTAs, as well as pushing aggressively for passage of the ASEAN Free-Trade Area (AFTA).⁴ Such agreements are relatively easy for Singapore to negotiate because, in addition to having a mature, globalized economy, it has virtually no agricultural sector and its manufacturing is limited to specialized sectors.

U.S.-Singapore Relations

Trade and Investment. Singapore was the United State's 13th largest trading partner in 2003, down from 12th place in 2002, while the U.S. share fell from 14.4% in 2002 to 13.6% in 2003. Nonetheless, the U.S. continues to be Singapore's largest market for NODX (non-oil domestic exports), accounting for 18.7% of total NODX, although now challenged by the EU's 18.6% share, and with China/Hong Kong edging forward to 15.2% (versus 13.2% in 2002). The United States remains Singapore's largest market for electronics, taking up nearly one-fifth of total electronics exports.⁵ Some 1,300 U.S. corporations operate in Singapore, with total investments of \$61.4 billion in 2002.⁶ This investment is concentrated mainly in electronics, petroleum, chemicals, and the financial sector. The U.S.-Singapore Free Trade Agreement (P.L. 108-78) went into effect on January 1, 2004. The implementation act passed the House by a vote of 272-155 and the Senate by a vote of 66-32. For information on the FTA and other trade issues, see CRS Report RL31789, *U.S.-Singapore Free Trade Agreement*, by Dick K. Nanto.

Defense Cooperation. In addition to trade, mutual security interests strengthen ties between Singapore and the United States. Bilateral military access agreements allow the United States to operate resupply vessels from Singapore and to use a naval base, a

³ "Economy: Singapore Sneezes," *Economist Intelligence Unit*. November 29, 2004.

⁴ Singapore is a founding member of the Association of Southeast Asian Nations (ASEAN), the regional economic organization which includes Singapore, Malaysia, Indonesia, Thailand, Brunei, Vietnam, Cambodia, Laos, Burma, and the Philippines.

⁵ *Singapore Economic Outlook March 2004*, prepared by economic and political sections of U.S. Embassy in Singapore, accessed at [<http://www.singapore.usembassy.gov/ep/2003/EconOutlookMar04.htm>]

⁶ "Singapore Country Commercial Guide, Fiscal Year 2004," U.S. Commercial Service. August 2003.

ship repair facility, and an airfield on the island-state. The U.S. Navy also maintains a logistical command unit — Commander, Logistics Group Western Pacific — in Singapore that serves to coordinate warship deployment and logistics in the region. As part of the agreements, squadrons of U.S. fighter planes are rotated to Singapore for a month at a time, and naval vessels make regular port calls. Singapore supported the U.S.-led coalition in the Iraq war and Operation Enduring Freedom in Afghanistan, allowing American aircraft and ships access to Singapore bases. It also sent a contingent of transport aircraft and ships to Iraq and contributed policemen to help train Iraqi police.

During President Bush's visit to Singapore in October 2003, the two states formally agreed to increase their security and defense cooperation, which will further expand bilateral efforts in counterterrorism, counter-proliferation of weapons of mass destruction, joint military exercises, policy dialogues, and sharing defense technology. The "Framework Agreement for the Promotion of a Strategic Cooperation Partnership in Defense and Security" builds on the U.S. strategy of "places-not-bases" in the region, a concept that allows the U.S. military access to facilities on a rotational basis without bringing up sensitive sovereignty issues. Bilateral negotiations for the specific elements of the strategic framework are ongoing; the pact is to eventually update the memorandum of understanding that governs U.S. use of Singapore's bases.

Counterterrorism Strategy

Singapore has been at the forefront of anti-terrorist activity in Southeast Asia.⁷ A terrorist attack on the city-state could jeopardize its standing as the region's financial and logistical hub. Singaporean officials maintain that important port facilities and other major targets remain vulnerable. Under its Internal Security Act, Singapore has arrested 37 Islamic militants. Of those, 13 are members of Jemaah Islamiah (JI), a designated foreign terrorist organization with reported links to Al Qaeda, for allegedly plotting to bomb the U.S. Embassy and other targets. In September 2004, Singapore announced that it had extended the detentions by two years.

The Joint Counter Terrorism Center (JCTC) coordinates the multiple agencies and departments of the Singaporean government that deal with terrorism, including the intelligence agencies. Since 9/11, Singapore has increased intelligence cooperation with regional countries and the United States. Singapore officials point to the arrests of the alleged Jemaah Islamiah Singapore cell leader in Indonesia and of a senior member of the same cell in Thailand as evidence of successful intelligence sharing with counterparts in neighboring countries. Singaporean authorities have also shared information gathered from the detainees with U.S. officials, providing detailed insights into JI and Al Qaeda's structure, methods, and recruiting strategies.

Singapore has demonstrated its commitment to fighting terrorism through a number of multilateral and bilateral agreements. It was a founding member of Proliferation Security Initiative (PSI), a program that aims to interdict shipments of weapons of mass destruction-related materials. It also was the first Asian country to join the Container Security Initiative (CSI), a series of bilateral, reciprocal agreements that allow U.S. Customs and Border Patrol officials at selected foreign ports to pre-screen U.S.-bound

⁷ See CRS Report RL31672, *Terrorism in Southeast Asia*.

containers. Singapore is party to a United Nations-administered international code, the International Ship and Port Facility Security (ISPS) code to the Safety of Life at Sea (SOLAS) convention, that bolsters maritime security; Singapore was one of the first ports to reach full compliance with the required safety measures. Singapore also signed and ratified the U.N. Convention for the Suppression of the Financing of Terrorism and has tightened its surveillance of financial records.

Singapore has focused particular attention on maritime security measures, urging other littoral states in Southeast Asia to work together to protect critical shipping lanes. In 2004, Singapore launched joint naval exercises with Australia and trilateral coordinated patrols of the Straits of Malacca with Indonesia and Malaysia. Many regional security experts have noted that the demonstrated threat of piracy in the Straits is increasingly being coupled with the threat of a major act of maritime terrorism.

Human and Civil Rights Issues

Although usually elected by a comfortable majority in free and fair elections, the PAP “uses the government’s extensive powers to place formidable obstacles in the path of political opponents,” according to the U.S. State Department’s 2003 *Country Reports on Human Rights Practices*. The PAP has maintained its political dominance in part by developing voter support through effective administration and its record in fostering economic prosperity, and in part by manipulating the electoral framework, intimidating organized political opposition, and circumscribing the bounds of legitimate political discourse and action.”⁸ According to Amnesty International, “The misuse of defamation suits by PAP leaders has contributed to a climate of self-censorship in Singapore.”⁹

Especially during the boom years of the 1990s, the ruling PAP advocates what it terms “Asian values” as an antidote to Western liberal traditions. The PAP ideology sees the government as having a key role in enforcing social discipline and harmony in society, even at the expense of individual liberties. Although freedom of speech and expression are provided for in the constitution, the government significantly restricts that freedom. Under the Internal Security Act, the government can prohibit or place conditions on publications that incite violence, advocate disobedience to the law, arouse tensions among the various ethnic, religious, and linguistic groups, or that might threaten national interests, national security, or public order. Journalists and other observers have noted a larger degree of tolerance in Singapore in recent years.

Perhaps as an attempt to distinguish himself from his father’s approach, which was largely seen as authoritarian by the public, Lee Hsien Loong has demonstrated that he intends to relax some of the stringent social restrictions in Singapore. In his initial address to the public, Lee promised a more open society, including removing the licensing requirement for some public speaking, provided the speech does not address race or religion. However, most observers feel that further opening will proceed slowly and only in a limited form.

⁸ U.S. Department of State, *Country Reports on Human Rights Practices for 2003*, February 2004.

⁹ Trish Saywell, “Token Contest,” *Far Eastern Economic Review*, November 15, 2001.