Asian Studies Center

Backgrounder

The Heritage Foundation · 214 Massachusetts Avenue, N.E. · Washington, D.C. 20002-4999 · (202)546-4400 · Telex:440235

No. 120 March 12, 1992

THE U.S.-SINGAPORE RELATIONSHIP: A MODEL FOR SOUTHEAST ASIA

INTRODUCTION

It probably will be some time before George Bush makes another trip to Asia. His latest expedition, this past December 30 - January 10, was marred by Australian farm protestors, complaints from his automobile executive travel companions over wavering promises from Japanese leaders, an increasingly skeptical American public and the perception, partially deserved, that he had come cup in hand begging for favors.

Lost among these setbacks was the highlight of the trip: his 38 profitably spent hours in Singapore. With a population of just 2.7 million in a city-state no larger than Chicago, Singapore was Bush's only stop in Southeast Asia. While relations between Singapore and Washington are nearly trouble-free, Bush in Singapore faced two growing concerns among members of the Association of Southeast Asian Nations[1]—or ASEAN—over America's future intentions in the region.

First, America's friends in Southeast Asia are worried that the withdrawal of the United States military from in the Philippines will create a power vacuum in the region. Clark Air Force Base, home to 8,700 U.S. airmen, already shut its gates last summer following the eruption of Mount Pinatubo; Subic Bay Naval Base, with its 5,000 sailors and 800 Marines, is scheduled to close by the end of this year.

1 ASEAN is a non-communist group formed in 1967 composed of Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Some Southeast Asian leaders go as far as to say that the departure of U.S. military forces from the region could produce serious political and economic instability. Said Singaporean Brigadier General George Yeo in a speech at a January 16 business conference in Singapore: "Japan would be forced to rearm, China and Korea would oppose Japan, and a whole chain reaction of destabilization would be triggered in the region...It is frightening to conceive of an Asia without the U.S. military presence for the next 20 years."[2]

Second, Southeast Asians are anxious about protectionist sentiment that may be growing in the U.S. Congress. This, they fear, could jeopardize access to their largest market; ASEAN exports to the U.S. approached $30 billion in 1990. Also worrisome to Southeast Asians is the possibility that the North American Free Trade Agreement (NAFTA), which is scheduled to be completed this year between the U.S., Canada, and Mexico, could become an exclusionary structure. With Washington's attention diverted to NAFTA and the single European market, ASEAN members have felt that the U.S. would ignore Southeast Asia and thus fail to offset Japan's growing economic domination of the region.

In Singapore, Bush sought to reverse the image of an Administration that neglects Asia in general, and Southeast Asia in particular. America, he assured Singaporean Prime Minister Goh Chok Tong, who succeeded Lee Kuan Yew in 1990, would keep military forces in the region. Bush also assured ASEAN that his Administration would continue to champion free trade and push for a resolution of the stalled Uruguay Round of the General Agreement on Tariffs and Trade. In addition, he promised that NAFTA would not become an exclusionary trade bloc.

Bush's choice of Singapore to deliver these reassurances was appropriate. The U.S. and Singapore long have had close ties. More than two decades ago, Singapore was one of the most outspoken Asian supporters of the U.S. attempt to defeat the communists in Vietnam. Today, Singapore occupies a location strategically important to America, straddling one of world's most critical choke points: the Strait of Malacca. Through this waterway passes 80 percent of the oil and petroleum products destined for Japan and the Republic of Korea.

Key Trade Partner. Singapore also has been a key U.S. partner in promoting free trade and in cooperating on such security issues as support for the non-communist Cambodian resistance. Singapore, moreover, is America's eleventh largest export market, importing $8 billion in of U.S. goods in 1990 and over $12 billion in 1991. Singapore's exports to the U.S. topped $10 billion last year. About 800 American companies operate in Singapore and direct U.S. investment tops $4 billion in such industries as computer software and semiconductors.

Over the past two years, U.S.-Singapore relations have grown even closer. In November 1990, when talks between Washington and Manila on American use of Philippine military bases were faltering, Singapore gave Washington timely leverage by offering Singapore as an alternative base. And when Malaysia early

2 FBIS-EAS-92-013, January 21, 1992, p. 55.

last year vigorously began to promote an Asian trade bloc that would exclude the U.S., Singapore signalled that there would be a place in Southeast Asia for U.S. trade. As such, Washington and Singapore last October signed a Trade and Investment Framework Agreement that could be a stepping stone to a bilateral free trade agreement.

In signing these agreements, Singapore has made itself a model for U.S. relations with other Southeast Asian nations in the post-Cold War and post-Soviet eras. Out are the expensive, permanent military bases like Clark and Subic. In are more modest and less risky access agreements for U.S. forces at existing Singaporean military facilities. In, too, are closer economic ties promoting free trade and investment.

Singapore has proved to be a reliable partner. What's more, its economic and security relations with Washington now stand as examples for other Southeast Asian nations. To build on bilateral relations and use them as a basis for stronger U.S. ties across Southeast Asia, the Bush Administration should:

- ✗ **Enlist Singapore's support to promote free trade throughout the region.**
- ✗ **Sign a U.S.-Singapore Investment Treaty this year.**
- ✗ **Initiate discussions on a U.S.-Singapore free trade agreement.**
- ✗ **Voice strong appreciation for U.S.-Singapore defense cooperation and laud Singapore as a model for American defense relationships in Southeast Asia.**

SINGAPORE: REPUBLIC IN TRANSITION

From the arrival of British government representative Sir Thomas Raffles in 1819, Singapore was under London's rule until 1959, except for a brief and brutal period of Japanese occupation during World War II. In 1959, under the leadership of the People's Action Party (PAP), Singapore became a self-governing regime within the British colony of Malaya. From 1963 to 1965, Singapore was granted independence from Britain as part of the new Federation of Malaysia. In 1965, Singapore broke from the Federation and became a fully sovereign republic.

During Singapore's first 27 years of independence, PAP rule became synonymous with Prime Minister Lee Kuan Yew, the British-educated labor lawyer who ran the city-state until 1990. During Lee's rule, Singapore shifted from an economy dependent on servicing Britain's military bases in Singapore to a manufacturing export nation. Relying, like Hong Kong, on free trade, Singapore recorded strong economic growth. Assisted, too, by its $10 million a month exports to South Vietnam during the height of the Vietnam War, Singapore successfully made the transformation to a manufacturing economy by 1978. Singapore also emerged as a leading transshipment point and refining center for oil and petroleum products destined for Northeast Asia.

it anticipates over the next five years. Despite an aging population, manpower shortages, and the size limitations of the city-state, the Singaporean government still expects per capita gross domestic product to increase more than four times over the next 40 years, reaching $49,000.

Singapore's main challenge to its economic growth is its tiny labor force. Singapore has been at full employment since the mid-1980s, and increasingly has to rely on imported labor from Malaysia and South Asia. To maintain economic growth, the Singaporean government over the past year has instituted new policies. Among them:

- **Increasing research and development funds.** Last September, Deputy Prime Minister Lee Hsien Loong announced plans to double Singapore's research and development funding to 2 percent of gross domestic product by 1995, half of which will come from the private sector. This would bring funding as a percentage of GDP to a level equal to that of the ROC and ROK, whose model Singapore tries to emulate. This funding as yet has no specific targets, but likely will focus on the industrial and service sectors.

- **Expanding the role of the government's Economic Development Board (EDB).** The EDB for years successfully promoted all kinds of investment in Singapore. Now it is becoming more discretionary, attracting such higher value-added industries as computer chip production. In effect, it is trying to shape the republic's industrial future by crafting the path of its future growth. The EDB has even acted as a venture capital company, making direct investments in local and foreign companies to attract technology to Singapore.

- **Shifting high-technology industries to Singapore.** Singapore government-controlled companies have invested an estimated $300 million in America in such high-technology manufacturing ventures as semiconductors, microwave components, computer terminals, and wireless radio communications for personal computers. In an effort to bring these technologies to Singapore itself, Singaporean companies that invest in U.S. companies reportedly require their American counterpart to shift at least part of the manufacturing process to Singapore. Initially this strategy aims to bring semiconductor technology to Singapore, which then will be used to lure other high-technology ventures to the city-state.[3]

A FREE TRADE MODEL FOR SOUTHEAST ASIA

Since independence, Singapore has embraced free trade. And like Hong Kong, Singapore's complete lack of tariffs or other trade barriers has been a major factor in the city-state's economic growth.

3 *Far Eastern Economic Review*, February 6, 1992, p. 46.

Another key to Singapore's economic success has been its close trade ties to the U.S., which remains Singapore's largest market. Two-way trade in 1990 was $17.8 billion, compared with $12.9 billion for Singapore's next largest trading partner, the European Community. That year, Singapore exported $9.8 billion to the U.S. Significantly, 55 percent of this was made by subsidiaries of such American multinationals as the Hewlett-Packard Company, International Business Machines Corporation, and Texas Instruments Incorporated.[4] Singapore, in turn, is America's eleventh largest trading partner, with U.S. exports more than doubling from $3.3 billion in 1986 to $8 billion in 1990. Singapore's exports to the U.S. are topped by computers, computer parts, and telecommunications equipment. U.S. exports to Singapore, meanwhile, are led by semiconductors, pharmaceuticals, electronic valves, computers, and computer parts.

Washington especially has appreciated Singapore's staunch support for free trade. The city-state, for example, has championed the idea of a free trade zone encompassing Singapore and neighboring portions of Indonesia and Malaysia. Then during the Fourth ASEAN Summit this January, Singapore, along with Thailand, successfully lobbied for adoption of an ASEAN Free Trade Area (AFTA). Under this, all six members of ASEAN now are committed to begin lowering tariffs next January; within fifteen years, tariffs on many products will be no higher than 5 percent. Currently, tariff levels in ASEAN range from 0 percent in Singapore to over 30 percent in the Philippines and Thailand.

A SHIFT IN DEFENSE RELATIONS: ACCESS VERSUS PERMANENT BASES

For more than four decades following World War II, U.S. strategic planning has hinged in large part on overseas military bases. In Asia, for example, the U.S. through the 1980s retained three military bases in South Korea, thirteen major bases in Japan, and two large military installations on the Philippines. Total troop strengths throughout this region remained stable at 135,000 soldiers, airmen, and sailors.

With the end of the Cold War, the security environment in Asia rapidly began to change. Vastly diminished was the Soviet military threat in the Pacific. At the same time, the Philippine government last December turned down a new basing agreement with Washington, making it all but certain that U.S. forces will vacate the Philippines by late this year.

Yet even with the collapse of Soviet communism, threats persist in the Asia-Pacific region. In Southeast Asia, for example, shipping lanes that connect the region with the Middle East run through the South China Sea, which also is the setting for territorial disputes involving seven nations.[5] Should these disputes

4 *The Asian Wall Street Journal*, October 21, 1991, p. 4.

5 Among the contested territories: the Spratly Islands, claimed by mainland China, Malaysia, the Philippines, the ROC, and Vietnam; the Paracel Islands, claimed by mainland China and Vietnam; the Natuna Islands, claimed by Indonesia and Malaysia; and sections of the continental shelf claimed by Cambodia and Vietnam.

erupt into armed conflict, as they did in 1974 and 1988,[6] shipping through these lanes could be disrupted.

With clear economic and security interests in the region, America needs some military presence in Southeast Asia. And America's friends in the region want this American presence. By 1990, the future of America's Philippines bases had become increasingly uncertain. Singapore that November offered a solution: a Memorandum of Understanding between Singapore and the U.S. that gave U.S. forces access to several Singaporean military facilities.

While technically not a "basing rights agreement" like those the U.S. has with Japan, South Korea, or the Philippines, the memorandum allowed the U.S. last year to base 95 military personnel in Singapore and begin deploying an average of six F-16 *Fighting Falcon* fighter aircraft to Singapore on two-week rotations from South Korea. Besides their potential deterrent value, these forward-deployed aircraft allow the U.S. to conduct training exercises regularly with the Republic of Singapore Air Force. In addition, 75 U.S. Air Force liaison personnel were assigned to Singapore on temporary duty. U.S. Navy ship visits, moreover, were increased in frequency and duration and a spare parts stockpile was established.

Fallback Position. Then, when prospects for a new U.S. basing agreement with the Philippines fell through last December, Washington knew it had a partial fallback position in Singapore. This position was solidified during the recent Bush trip. He and Prime Minister Goh reached an agreement in principle for a "naval logistics facility" to be relocated from Subic Bay to Singapore by the end of this year. Known as Command Task Force 73, the facility is to be headed by Rear Admiral Paul Toban of the U.S. 7th Fleet and will consist of up to 200 U.S. Navy personnel. The task force, besides arranging ship repairs and port visits to Singapore, likely will become a key U.S. Navy command responsible for coordinating warship deployments in the Pacific region.

The November 1990 and January 1992 access agreements allow limited U.S. forces use of Singaporean facilities without the major economic and diplomatic costs associated with permanent bases like Clark or Subic Bay. Such a limited presence of U.S. forces has been backed either publicly or privately by nearly every ASEAN nation. Washington, moreover, hopes these agreements will encourage other Southeast Asian nations to afford U.S. forces similar access. Already, in fact, negotiations are underway with Brunei, Indonesia, and Malaysia for agreements that would allow ship repairs, increased ship visits, and refueling of U.S. military aircraft.

6 In 1974, China and South Vietnam battled over the Paracel Islands; in 1988, China and Vietnam skirmished over control of the Spratly Islands.

RECOMMENDATIONS

In Singapore, Bush delivered the prestigious "Singapore Lecture," an annual address by major world figures organized by the Institute of Southeast Asian Studies. His remarks were aimed at the larger ASEAN audience. America, he reassured Southeast Asia, still is a champion of free trade. NAFTA, moreover, would not be turned into an exclusionary trade bloc. America too, said Bush, would maintain a "credible presence" from Southeast Asia. While bases in the Philippines likely will close late this year, alternatives will be found.

In building on the twin pillars of free trade and continued American support for Asian security, Singapore will be a linchpin. Indeed, Singapore has set a precedent for U.S. ties with other ASEAN nations. Washington should laud Singapore as an example of bilateral ties that promote free trade and a continued American military presence in the Asia-Pacific region.

Specifically, the Bush Administration should:

✗ **Enlist Singapore's support to promote free trade throughout the region.**

As with Hong Kong, the key to Singapore's economic success has been its adherence to free trade. At a time when many countries, including those in the European Community, are advocating exclusionary trade blocs, Washington should make a point of praising Singapore for its refusal to erect trade barriers.

Washington, moreover, should call upon Singapore to help promote free trade in such international organizations as the Asia-Pacific Economic Cooperation (APEC) forum, which will convene a ministerial-level meeting this fall in Bangkok. The U.S., which is an APEC member, and Singapore immediately should propose that APEC conclude its current project of identifying trade barriers by this summer, and begin discussing ways of removing trade barriers at the Bangkok meeting.

✗ **Sign a U.S.-Singapore Investment Treaty this year.**

Following the Trade and Investment Framework Agreement signed with Singapore last October, U.S. officials proposed a Bilateral Investment Treaty to protect U.S. investments in Singapore against, for example, nationalization and expropriation without compensation. Because, of course, Singapore already has a sound investment environment, the treaty's guarantees actually would have no more than symbolic effect on bilateral investment. The real point of the treaty, according to U.S. officials, is as a model for agreements with other Southeast Asian nations. The Bush Administration should immediately open discussions with Singapore on a Bilateral Investment Treaty, and sign such an agreement by the end of this year.

✗ **Call for discussions on a U.S.-Singapore free trade agreement.**

Building on last October's U.S.-Singapore Trade and Investment Framework Agreement, the Bush Administration should begin discussions on a U.S.-Singapore free trade pact. For Singapore, such an agreement would exempt its goods

from U.S. duties and other trade restrictions; Singapore now faces U.S. tariffs of up to 30 percent of the total value of textile exports, up to 17 percent on its pharmaceutical exports, and up to 10 percent on its electronics exports.

Exemption from these tariffs would make Singapore's products cheaper and more competitive in the U.S. market than they now are. Their products, for example, would have an advantage over those from Hong Kong, Japan, and most other nations, which face U.S. duties and other trade restrictions like those now faced by Singapore. American consumers could buy Singaporean goods at a lower price. More important, such a pact could add momentum toward further free trade agreements between the members of the North American Free Trade Agreement and other Asian nations. Indeed, Thailand, Malaysia, and Indonesia, unilaterally are liberalizing their economies; Bangkok, in particular, in recent months has begun slashing its tariffs.

✗ **Voice strong appreciation for U.S.-Singapore defense cooperation and laud Singapore as a model for American defense relationships in Southeast Asia.**

While the diminished threat from the former Soviet Union means that America no longer needs large military bases in Southeast Asia, most nations in the region either publicly or privately state that they want America to remain militarily in Southeast Asia. This would help offset potential military expansion by mainland China, India, or even Japan. With the possibility of conflict in the South China Sea, moreover, continued patrolling of the region by U.S. warships would ensure that the vital trade routes between the Strait of Malacca and Northeast Asia remain open.

The best way for America to keep military forces in the region would be through a series of bilateral access agreements allowing for ship repairs, aircraft landing rights, and temporary basing rights in some Southeast Asian nations. In October 1990, a Memorandum of Understanding was signed between the U.S. and Singapore, allowing for U.S. military aircraft to rotate through Singaporean bases. Since last year, Washington has used this agreement to stage up to six U.S. Air Force F-16 *Fighting Falcon* jet fighters in Singapore on two-week rotations. This January's second bilateral agreement permits a U.S. Navy logistic unit to move from the Philippines to Singapore.

The Bush Administration should praise U.S.-Singapore defense cooperation and point to the agreement with Singapore as an example of the defense pacts that effectively would provide the U.S. a "credible presence" in Southeast Asia in the post-Cold War period. Other ASEAN nations, in fact, already appear to be following Singapore's lead. Last June, for example, Aerospace Industrial Malaysia, a private Malaysian company, signed contracts the U.S. Air Force to repair C-130 *Hercules* transport aircraft. Washington, moreover, is negotiating with Kuala Lumpur on a ship repair agreement. Similar negotiations are being conducted with Brunei and Jakarta.

CONCLUSION

George Bush's stop in Singapore was one of the few bright spots in his otherwise unproductive, and unnecessary, Asian trip. With Japan's increasing influence in the region, and American attention diverted to the Middle East, Eastern Europe, and the U.S. presidential elections, Bush's renewed commitment to free trade was welcome in Southeast Asia, particularly in Singapore which along with the rest of ASEAN sees the U.S. as its biggest trading partner.

Bush's promise to maintain Asian security, too, was reassuring to ASEAN. American military forces relieve Japan of the need to rearm and ensure that the trade routes between the Strait of Malacca and Northeast Asia remain open.

Laudable Contributions. Singapore's own contributions to the twin pillars of free trade and American support for Asian security are especially laudable. As many countries flirt with exclusionary trade blocs, Singapore steadfastly maintains its support for free trade. And as the U.S. slashes its defenses after emerging victorious in the Cold War, Singapore's agreements for access to its air and naval bases will help keep American forces in Southeast Asia despite the loss of Subic Bay. For these contributions, Singapore should be praised.

Even more, Singapore should be held up as a model for greater free trade between the U.S. and ASEAN's combined population of 330 million people. U.S.-Singapore defense ties, too, should be hailed as an example of the type of bilateral agreements America seeks that would be most effective in maintaining the peace and stability of Southeast Asia in the post-Cold War and post-Soviet eras.

Kenneth J. Conboy
Deputy Director
Asian Studies Center