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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Singapore's Continuing Economic Boom

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
October 1970

INTELLIGENCE MEMORANDUM

Singapore's Continuing Economic Boom

Introduction

Singapore's strategic importance continues to grow as a parallel development to the growth of trade between Japan and the rest of the Far East with Europe and the oil-rich Middle East. The city-state has the only port along this trade route with a good harbor and drydocking facilities capable of servicing large ships. While many other Southeast Asian countries have experienced varying degrees of political turmoil, Singapore has been relatively calm. Singapore's rapid economic growth has not been without numerous problems. Much of the success in overcoming them can be credited to Prime Minister Lee Kuan Yew.* This memorandum examines the Republic's economic achievements, the reasons for its growth, and the contribution made by its Prime Minister.

* *Prime Minister Lee is spending about one month (7 October to 7 November) in the United States during which time he is visiting Harvard University, speaking to the 25th session of the U.N. General Assembly (if a time suitable to Lee can be arranged), and will meet unofficially in Washington with US government leaders about 1 November.*

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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CONFIDENTIALGrowth, Welfare, and Stability

1. Singapore has faced an array of serious problems during the past eleven years. When the Island attained internal self-government in 1959, its 4.6% annual population growth was among the world's highest -- a 3.6% natural increase and 1% from immigration -- unemployment was growing, and about one-third of the population lived in urban slums or squatter villages on the city's outskirts. In 1963, when Singapore became part of the newly formed Federation of Malaysia, Djakarta cut off trade relations with Kuala Lumpur because of a territorial dispute. As a result the Island lost considerable entrepot trade. Before the situation was rectified, Singapore left the Federation, and Malaysia decided to develop its own port facilities, financial institutions, and manufacturing sector. There was a further blow in 1968 when the British announced the withdrawal of their relatively large military forces by 1971.*

2. Despite these adverse developments, Singapore's real GNP increased by 9% a year during the 1960s, a rate comparable to the phenomenal growth achieved in Japan, Taiwan, and South Korea. As a result of this rapid growth, the well-being of the city-state's two million inhabitants has been substantially improved. Per capita GNP nearly doubled, reaching \$840 in 1969 (see Table 1), the second highest in Asia after Japan. Unemployment fell from 9% to 6%. Total population growth was reduced to less than 2% in 1969 (see Table 2), and over one-third of the country's inhabitants came to live in modern, government-built housing. Primary education is free, there are five university-level institutions, and the literacy level of the predominantly Chinese society is high. Medical facilities are relatively extensive. There are 16 hospitals and 1,200 doctors, and life expectancy is over 60 years, rivaling life expectancy in many industrial countries.

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3. All of these achievements occurred along with remarkable price stability and a highly favorable balance of payments. The consumer price index increased only about 1% a year. Foreign exchange reserves more than doubled in five years, reaching over \$1 billion by the end of 1969, an enormous sum for this small country. Even more impressive, Singapore received little foreign aid, and its external public debt amounts to only a minuscule \$82 million, including quasi-government agencies such as the Port of Singapore Authority.

Pillars of Growth

4. All sectors of the economy have fueled this growth. Traditionally, Singapore's prosperity has been based on its port's strategic location at the crossroads of Southeast Asia. Its entrepot trade has increased rapidly even though neighboring Malaysia and Indonesia have been developing their own port facilities. Cargo handling doubled in five years, reaching 38 million tons in 1969 (see Table 3). The bulk of this growth was in petroleum products. The country's expanding refinery capacity -- almost 400,000 barrels per day in 1969 -- supplies much of the region's needs. Singapore also profits from ship repair; it is the only port between the Middle East and Japan with drydocks capable of handling large ships. Vessels up to 90,000 tons can now be accommodated and there are plans to expand facilities to service 300,000-ton supertankers. One major Japanese shipping firm decided to perform routine drydocking for one-half of its tanker fleet in Singapore beginning in October 1970.

5. The service-based economy has benefited from expanding tourism and nearby oil exploration. Tourist spending tripled between 1965 and 1969, when it reached \$69 million. In 1970 these earnings will probably increase at least 30%. These gains alone have so far more than offset the loss of revenue caused by the British withdrawal of forces. The Island's well-developed economic infrastructure readily meets the needs of oil companies rapidly expanding their prospecting operations in Malaysia and Indonesia. Supply bases are being established, ships repaired, barges built, and oil men and their families have settled in Singapore, bringing with them considerable spending power.

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6. Singapore's highly sophisticated financial sector has been a major contributor to overall economic expansion. Although still far behind, it has been gaining on Hong Kong as the Asian financial center. By allowing certain banks since 1968 to hold tax-free deposits (while Hong Kong did not), Singapore was able to establish the Asian dollar market.* Deposits, which grew from \$30 million at the end of 1968 to over \$200 million in mid-1970, were attracted mainly from overseas Chinese throughout Southeast Asia. In addition, Singapore's free gold market prices are lower than those in Hong Kong. The country's well-organized and highly liquid financial institutions can easily accommodate both public and private needs for development spending.

7. Although trade and services have been the traditional pillars of the economy, the most dynamic sector is industry. The value of manufacturing output has increased nearly five times since 1960. Since the local market is small, most new plants are export-oriented. Oil refining has become the leading industry. Despite the fact that it has no crude oil production of its own, Singapore has become the regional refining center because of its established trading and service facilities and its well-trained labor force. Today these activities constitute the largest component of industrial investment in Singapore, with five refineries representing an investment of roughly \$225 million. In terms of value added, the petroleum products industry surpasses all others, including traditional rubber processing.

8. More recently, foreign investment in labor-intensive industries is becoming important. Firms such as Phillips of Holland, Plessey of the United Kingdom, and General Electric of the United States decided in 1970 to set up new factories in Singapore to produce various electronic components. Rollei Werke of West Germany is moving its entire production of 35-millimeter cameras to Singapore to better compete with the Japanese. In addition, the output

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of textiles, pharmaceuticals, and engineering goods is growing rapidly. The latest figures available indicate that at the end of 1968 the United Kingdom was the main source of overseas capital, accounting for 37% of the total, followed by the United States, 21%, and Japan and Hong Kong, 6% each. The US share has risen in the last 18 months and now probably totals well over \$100 million.

The Lee Government's Role

9. An excellent natural port and a well-trained labor force are essential ingredients, but a great part of Singapore's economic success has been due to political stability and the highly favorable investment climate created under the strong leadership of Prime Minister Lee Kuan Yew. A 47-year-old Cambridge graduate, Lee is an extremely capable and honest administrator and politician who has maintained tight control since 1959. He is deeply involved in carrying out government economic policies, which are largely of his own making. Indeed, these policies reflect his own strong ambitions and drive for success. These characteristics have made Lee impatient with anything that threatens to interfere with Singapore's economic progress. Partly through personal authority and partly through appeal to Chinese pragmatism, Lee has minimized communal problems, such as those occurring in neighboring Malaysia and Indonesia.

10. Lee's policies have promoted investment by providing fiscal incentives, imposing indirect wage controls, and establishing self-contained industrial estates. Initially the government relied strongly on tax advantages combining a long tax holiday and ample depreciation allowances. More recently, to prevent losing investment to lower wage countries like South Korea and Taiwan, the government is making a determined effort to avoid abnormal wage increases and labor disruptions. Legislation in 1968 reduced the number of holidays, overtime pay rates, and other fringe benefits. Close government-labor cooperation reduced the number of industrial work stoppages from 116 in 1961 to zero in 1969. The action of Prime Minister Lee Kuan Yew in not accepting a pay raise in 1969

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symbolizes his personal determination to avoid rising wages. A more forceful demonstration of this intention was the government's quashing of a "go-slow" movement among dock workers. The wage level in Singapore in 1969 was about \$65 a month, or half that of Japan but double that of Korea and Taiwan.

11. The Singapore government is known for its relative lack of corruption and its speed in handling investment applications. For example, one American company, Texas Instruments, was able to begin production 50 days after submitting an application. By far the most impressive Lee-sponsored undertaking is the industrial estate of Jurong. Meticulously planned from its inception in 1961, over \$70 million has been spent on landfill and infrastructure to turn a wasteland of scrub and marsh into a thriving industrial complex with nearly 300 factories in operation and plans to accommodate 500. Moreover, about one-fourth of the labor force employed in Jurong and their families have settled in new housing there. Stores and schools are also being provided.

Conclusions

12. Singapore's economic future is indeed very bright. Under the present momentum and strong political leadership, Singapore should be able to overcome any potential problems and still grow rapidly. Reaction against the 1968 wage legislation and the limited growth of wages during the decade may make labor unions less responsive to government pressures. Paradoxically, the government's success in reducing unemployment may become a problem as there is no longer a large unemployed reserve to keep wages low. However, opening jobs to foreign workers, as the government has done to alleviate shortages in certain technical fields, can be employed as a strategy in areas where wage pressures are felt. Also the past success of the government in engaging the support of a disciplined labor force in making sacrifices for economic growth augurs well for the future.

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13. Singapore can continue to offset losses caused by the British military withdrawal and to finance increases in its own military outlays. Between 1966 and 1969, UK military spending in Singapore declined some 25% but it still amounted to \$135 million. Although Prime Minister Heath has decided to maintain a token force in Singapore, there will still be a substantial further reduction in British spending. Singapore's own defense spending jumped 80% in 1969 and is expected to continue to increase rapidly. The British troop withdrawal will undoubtedly create some structural unemployment but by and large the laid-off workers will be absorbed elsewhere. Increasing earnings from tourism alone will probably offset a large part of the foreign exchange loss caused by the British withdrawal, and British aid amounting to \$120 million over five years will pay for much of the increased local defense expenditures. In any case, Singapore could easily afford to reduce its massive foreign exchange reserves and increase its minute level of foreign borrowing if it needed to.

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Table 1

Basic Data on Singapore
1969

Population	2.02 million (78% Chinese, 12% Malays, 7% Indians, 3% others)
Area	225 square miles (about the same as the city of Chicago)
GNP	\$1,701 million
Per capita GNP	\$840
Foreign exchange reserves	\$1,030 million (end of year)

Table 2

Singapore:
Index of Selected Economic Trends

<u>Year</u>	<u>GNP</u>	<u>Pop- ulation</u>	<u>Manufacturing Output</u>	<u>Tourist Spending</u>
1960	100.0	100.0	100.0	100.0
1961	109.9	103.3	111.2	103.2
1962	116.3	106.0	141.7	129.0
1963	131.3	108.6	181.1	177.4
1964	132.4	111.4	199.1	196.8
1965	149.0	114.1	233.0	209.7
1966	165.6	117.1	284.5	267.7
1967	177.3	119.7	362.0	393.5
1968	208.4	121.7	467.0	467.7
1969	237.5	123.4	565.7	680.6

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Table 3

Singapore:
Cargo Handled

<u>Year</u>	<u>Thousand Long Tons</u>		
	<u>Total</u>	<u>Oil</u>	<u>Other</u>
1961	18,258	10,926	7,332
1962	21,067	13,597	7,470
1963	21,594	13,974	7,620
1964	18,051	12,054	5,997
1965	21,340	14,927	6,413
1966	26,638	19,897	6,741
1967	30,340	23,044	7,296
1968	35,638	27,535	8,103
1969	37,904	29,208	8,696

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