Pacific Economic Relations in the 1990s
Cooperation or Conflict?

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Reconstructing Divisions of Labour: Singapore’s New Regional Emphasis

GARRY RODAN

Introduction

Singapore’s development has entered a qualitatively new stage, one that clearly expresses the inseparability of political and economic relations in the international arena. After having undergone a period of rapid industrialisation on the basis of labour-intensive manufacturing for export, the emphasis is now turning to Singapore’s potential to service the industrialisation of other countries in the Asian region now embarking on similar programmes. This is taking creative forms, notably the promotion by the Singapore Government of the concept of borderless economic zones with coherent and integrated divisions of labour that transcend formal national political boundaries.

This attempt to carve out a particular economic niche within the intersection of global and regional divisions of labour carries with it important implications for Singapore’s international political relations. New degrees and forms of cooperation between regional governments are involved. So too are questions of sovereignty the management of which demands considerable diplomacy. The political complications of this path are compounded not just by economic nationalism, but by ethnic sensitivities raised by the spread of Southeast Asian Chinese capital with the closer integration of Singapore’s economy with others of the region. In political terms, the economic path ahead is a more precarious one, and the same high degree of control that the Singaporean state has been able to exert over the development process in the past will simply not be possible.

The Singapore-promoted ‘Growth Triangle’ or sub-regional development area is by far the most advanced conceptualisation of a discrete
economic zone operating across national borders. However, links consistent with the principles embodied in this notion are a growing phenomenon—the relations between Taiwan and Hong Kong with southern China are examples of other cases involving Asian newly industrialising countries (NICs).

One of the underlying dynamics in this process has been the modification of global strategies by transnational corporations (TNCs). TNCs are coming to view the Asia-Pacific region as an important growth area in its own right which demands more comprehensive and regionally focused operations. This has led to a broader range of manufacturing and non-manufacturing processes being located in the region, and to attempts by the NICs to consolidate privileged spaces in the unfolding divisions of labour. To the extent that the individual NICs retain these spaces in assosited sub-regional economic zones, they limit direct competition between themselves. But this scenario does not guarantee harmonious relations between them and the would-be NICs in the region.

Alongside the greater regional focus of TNCs, the last decade has also witnessed a general increase in the variation of international production roles by the NICs. It is no longer valid to conceptualise global manufacturing production in terms of an emerging and potentially dominant single (new) international division of labour, wherein developing countries engaged in export production differ essentially in the degree rather than the kind of role they play in the world economy.1 As Gereffi (1989, 1991b) points out, there are important differences in the forms of production that characterise the Latin American and East Asian NICs' global manufacturing programme. The former involve a range of intermediate goods and industrial components, while the latter have concentrated more on finished consumer goods. Even within these regions there is increasing differentiation unfolding as each NIC establishes a distinctive specialisation or niche within the global economy. This includes specialisation in a particular stage of production within a given industry. This has led Gereffi (1989, p. 100) to argue that 'export networks' rather than nation-states are becoming the appropriate unit of analysis in the study of the global manufacturing system. In addition, social and political changes in the advanced capitalist countries, including the emergence of sizeable underclasses and the weakening power of trade unions to defend employment conditions, have made low-cost labour widely accessible in many advanced countries. Automation too has contributed to an arresting of the previous pattern of relocating labour-intensive production to developing countries (Soon 1985; Cohen 1991, pp. 123–49).

The net result has been a much more differentiated set of production arrangements within and across nation-states in both developing and developed economies, without any necessary setback for the internationalatisation of production. The emergence within TNCs of greater regional concentration—whether it be in the Asia-Pacific region, Europe or North America—is indeed part of the process of increased specialisation within the global economy.

The timing of this shift towards more complete regional divisions of labour is quite fortuitous for the NICs. With the labour-intensive phases of industrial development largely behind them, the NICs have been under pressure to identify areas of more advanced technology in which they can still exploit lower labour costs as a basis of international competitiveness. The diminishing proportion of labour to total production costs, as a country moves up the technological hierarchy associated with global export production, has made it more difficult to sustain high levels of industrial growth, and raised questions about the longer term viability of the existing economic strategies.

However, Singapore’s problems of dependence on external markets and TNCs are more acute than for the other NICs. It lacks a sizeable domestic market for manufactured goods as a counterweight to reliance on markets in the advanced industrial economies for a limited range of exports. This is compounded by the exceptional dominance of foreign-based TNCs within Singapore’s manufacturing sector. Moreover, the naturalliminations to the city-state’s land and labour resources have added urgency to the problem. These limitations have accelerated production cost increases and threatened to undercut Singapore’s full industrial potential, including that of formative indigenous manufacturing capital focused on labour-intensive production.

The attraction of the Growth Triangle, in particular, is that it offers the possibility of organically linking the industrial expansion of neighbouring states to the Singapore economy, thereby facilitating Singapore’s sectoral diversification and reduced dependence. Ironically, this is achieved by encouraging neighbouring states to follow Singapore’s earlier path. The Growth Triangle simultaneously offers a chance for capital currently based in Singapore’s labour-intensive aspects of manufacturing to remain internationally competitive, and ensures that this manufacturing production is harnessed to Singapore’s aim of greater sectoral diversification. In effect, the idea is to geographically expand the Singapore economy itself.
Singapore’s full economic potential simply cannot be realised within its limited borders.

While the new economic direction charted by Singapore’s policy-makers is based on a reading of international and regional trends in investment, as with the previous development phase, at the same time it incorporates a central economic role for the state. There are two discernible emphases to the state’s contemporary economic role. One is to actively foster favourable investment conditions, particularly physical and social infrastructure, in neighbouring countries for labour-intensive industrial investment. Here the Singaporean state is trying to reproduce the investment climate that prevailed during the city-state’s initial experience with export-oriented industrialisation. The other is to instigate new linkages with the international economy through the ‘internationalisation’ of government-linked companies (GLCs). So despite the rhetoric of economic liberalisation and privatisation in which Singapore’s policy-makers have couched recent reforms, it makes more sense to describe the state’s economic role as redefined or rationalised, but not reduced in significance.

The content of this chapter thus touches on several theoretical debates. It relates to disputes over: the underlying dynamics of international divisions of labour and the associated strategies of TNCs; the relative importance of markets and states in the development of the NICs; and a separate debate over the significance of economic restructuring for the broader constitution of international relations between nation-states.

Singapore’s dilemma: structural limitations of the EOI programme

Against the background of the collapse of political merger with Malaysia in 1965 and the dwindling prospect of a common market for Singapore’s manufactured goods in the new federation, Singapore’s policy-makers instigated a swift and comprehensive shift in industrial strategy from import-substitution to export-orientation (Rodan 1989; Mizra 1986; Deyo 1961; Lee 1973, 1977). A host of measures were adopted to facilitate Singapore’s exploitation as a low-labour-cost production site for manufactured goods destined for the consumer markets of the advanced capitalist countries. The ability to effect this sudden redirection in economic strategy lay in an unusually high degree of relative political autonomy from both capital and labour enjoyed by the state. Such a circumstance was the consequence of complex historical and socio-political factors. 2

The export-orientated industrialisation (EOI) programme met with almost instant success. International investment poured in from the late 1960s, leaping from a cumulative total of $315 million in 1965 to $598 million in 1970. By 1978, this sum had climbed to $5524 million. Manufactured exports, which constituted just $349 million in 1965, amounted to $1352 million in 1970 and $5126 million in 1978 (Economic Development Board [hereafter EDB] Annual Report 1983/84, pp. 8, 10). The contribution of manufacturing to gross domestic product also rose from 15.3 per cent in 1965 to 20.5 per cent by 1970, and 22.6 per cent by 1978 (Department of Statistics 1983, pp. 57–9). The electrical/electronics industry was crucial in this development. It was here that the decomposition of the production process through mechanisation and automation to take advantage of unskilled, lower-cost labour had widest application.

Ironically, Singapore’s industrial programme, which had been inspired in large part by the need to generate employment, was by the late 1970s experiencing serious bottlenecks due to labour shortages (Asia Wall Street Journal [hereafter AWSJ] 31 October 1978, pp. 1, 12). This was beginning to threaten planned technological upgrades in the electrical/electronics industry and was generally pushing wage costs up and reducing the competitiveness of the most labour-intensive production. However, for political reasons the PAP was averse to the idea of expanding Singapore’s already large supply of guest labour to address the problem. Instead, the government embarked on a concerted effort to secure a rapid technological transformation, a ‘second industrial revolution’, which was expected to reduce the demand for labour. This not only meant greater mechanisation and automation in existing production, but the attraction of new investments in higher value-added production. In the latter case, the aim was to move into areas of middle to high technologies involving reasonably skilled work forces. Here Singapore was expected to retain a cost advantage over manufacturers in the advanced industrial countries at the same time as moving out of competition with unskilled but lower-cost labour in developing countries. During the course of the second industrial revolution, it was envisaged that the manufacturing sector would play an increasingly pivotal role in the overall economy (Goh Chok Tong 1981).

The policies of the second industrial revolution involved discouragement of unskilled, low value-added production on the one hand, and prehend the strength of the anti-colonial movement in the lead-up to self-government left it without links to the People’s Action Party (PAP) which had grafted itself onto this movement and held office since 1959. For a fuller discussion of these factors see Rodan (1989, chs 2, 3). Second, while the PAP came to office with the support of the trade union movement, the party’s internal power struggle in the early 1960s resulted in the ascendancy of Lee Kuan Yew’s faction and the virtual elimination of labour as an effective independent political force. The power base of Lee’s left-wing opponents had, of course, been in the trade union movement.

2 First, as a legacy of the class structure emanating from the colonial economy, the domestic bourgeoisie was still based in the trading, banking and services sectors. It was yet to establish a firm base in import substitution industrialisation (ISI) which might have generated sufficient will or capacity to threaten this change in strategy. In any case, the domestic bourgeoisie’s failure to com-
encouragement for manufacturers trying to upgrade on the other. The most controversal of these policies was the 'corrective' wage policy operating between 1979 and 1981, under which wage cost increases of between 54 and 56 per cent were imposed through the National Wages Council (NWC) to apply pressure on employers; supposedly 'corrective' in the sense of bringing wage costs into line with the market. At the same time, though, generous fiscal and tax incentives were provided for investments and production in preferred areas of higher value-added production, including interest free loans and generous tax holidays. Social and physical infrastructures were also substantially improved and expanded, including specialised industrial estates and training centres, and employers' training costs in preferred areas of industry were heavily subsidised. Additionally, the government engaged in direct investments to stimulate higher value-added production, especially in the aerospace and petrochemical industries (Rodan 1985, pp. 142-6).

The period of the second industrial revolution witnessed some important developments. Foreign investments rose substantially from $86349 million in 1979 to $12717 million in 1985 (EBD Yearbook 1985/1987, p. 16), during which time value added per worker increased from $23292 to $42346 (Yearbook of Statistics Singapore 1986, p. 113). In the electronics industry, Singapore became a world leader in the export of computer disk drives, and attracted the first investment in semiconductor wafer diffusion outside the advanced industrial centres. In other industries, such as machinery, chemicals and aerospace, Singapore also managed to attract investments significantly raising the technological sophistication of operations. This seemed to suggest that there was still space in the global economy for Singapore as a lower labour-cost production site, in spite of the corrective wage policy. In the aerospace industry, for example, the cost of Singapore's relatively skilled labour was approximately half that of Europe or North America (Asian Business November 1984, p. 68). Meanwhile, unskilled, labour-intensive investments waned, and, in many cases, were relocated outside Singapore.

Nevertheless, the strategy did encounter difficulties. First, instead of the manufacturing sector assuming greater strategic importance, it failed to keep pace with the growth in the rest of the economy. Manufacturing's share of gross domestic product fell from 29.15 per cent in 1980 to 24.63 per cent in 1984 (Yearbook of Statistics Singapore 1990, p. 87). Although there were some niches which Singapore could slot into as it lost competitiveness in the most unskilled, labour-intensive aspects of manufacturing, the volume of such investments appeared an insufficient substitute if manufacturing was to serve as the motor of economic growth. Meanwhile, the services sector was making sustained progress, with transport and communications increasing its share of gross domestic product from 11.96 per cent in 1980 to 17.03 per cent in 1984, and financial and business services increasing from 20.53 per cent in 1980 to 25.86 per cent (Yearbook of Statistics Singapore 1990, p. 87). Although it had been envisaged that the continued development and upgrading of the services sector would be an important complement to Singapore's manufacturing transformation, it now appeared that greater reliance might need to be placed upon it.

Second, much of the increased value added per worker was achieved by introducing higher value-added products, as in the case of the celebrated disk drive industry, without necessarily making a decisive shift away from the assembly process towards the more conceptual stages of production. Continued difficulty was experienced at this stage in attracting engineering and design processes. One constraint here was internal: the lack of a sufficient pool of scientists and engineers to induce such investment. Another constraint was external: the fact that TNCs had to weigh up the attraction of such production in Singapore against existing investments elsewhere that were closer to established markets. In the latter case, however, there was the prospect that the considerable expansion of markets in East Asia would turn the situation around.

Third, in the early 1980s Japanese investors showed a particular lack of interest in Singapore as a site for investments in higher value-added production. At this time, they were not so much motivated by the search for low-cost production sites as the need to secure access to markets in Europe and the United States. This demonstrated that there was no universal logic uniformly adhered to by international capital that would enable Singapore's policy-makers to induce a general response. Rather, the variables influencing investment considerations by international capital proved complex and peculiar. Low-cost labour was but one factor in the calculations of international capital, and not one that carried equal weight among capital of different national origins.

Finally, the fundamental political goal of the strategy, to reduce the need for guest labour, was also proving elusive. In 1985, Singapore had in excess of 150,000 guest workers (Business Times 18 October 1991, p. 11). There seemed, over the longer term, a real contradiction between a labour-scarce city-state and the pursuit of an industrial strategy reliant upon the attraction of lower labour costs for expansion. Technological upgrading might limit but not eliminate this contradiction. Interestingly, both South Korea and Taiwan have also recently begun to experience serious labour shortages (Strait's Times 19 October 1991).

The Singapore experience in the first half of the 1980s also raised the question of whether there was an inherent paradox to EOI success. The further up the international technological hierarchy a country graduated on the basis of labour-cost competitiveness, the less a proportion of overall production costs labour became. In this context, the state's indirect subsidisations of production and various other factors not immediately related to labour cost became more important to investors, since finer judgements had to be made about the comparative advantage of transferring higher value-added production to Singapore. But even with the state playing this role of helping to shape comparative advantage, the longer term viability of the programme was problematic owing to uncertain trade opportunities,
and to the possibility of innovations enabling automation to an increasing number of semi-skilled processes involving middle-level technologies (AWSJ 20 August 1986). This would further shrink the number of industries and processes under pressure to be located outside the advanced capitalistic economies.

Given the above points about the uncertain long-term feasibility of the EOI programme, a particularly interesting development in the period of the second industrial revolution was the increasing consideration given by international capital to projected regional markets. This was a major factor behind the establishment of a semiconductor wafer diffusion plant, and of importance in various other investments by computer hardware manufacturers (Roden 1985). The general expansion and maturity of regional economies and markets was beginning to add a new dimension to the motivation behind production in Singapore by international companies and, indeed, to the pattern of investment by TNCs in the region more generally. Growing regional markets had started to assume more importance, so that production was no longer exclusively for traditional markets and was occurring at the expense of production in the developing countries. To some extent this compensated for the relative exhaustion of growth opportunities for Singapore under the established EOI structure, and even concealed the degree to which this exhaustion was happening.

The inbuilt limitations of an industrial strategy based on lower labour costs have to be faced by all NICs. However, in Singapore's case the situation was more urgent owing to the restricted domestic market. Moreover, Singapore's industrial investment was dominated by foreign-based TNCs attracted exclusively for EOI. As a result, the failure of the second industrial revolution substantively to project Singapore into the upper echelons of the global technological hierarchy carried particularly serious implications for Singapore's economic strategy.

**New directions for economy and state**

The stimulus for a major revision of Singapore's economic strategy was finally precipitated by the dramatic economic downturn in 1985, when Singapore's economy declined in real terms by 1.8 per cent, followed by a modest growth in 1986 of 1.9 per cent (Yearbook of Statistics Singapore 1986, p. 3). A sharp fall in demand due to global recession undermined Singapore's immediate difficulties, but the policies of the second industrial revolution compounded this with high cost structures which not only intentionally reduced the competitiveness of certain traditional activities in manufacturing, but unintentionally undermined competitiveness elsewhere in the economy. The vulnerability arising from extreme dependence upon external demand for manufactured goods, especially electronic goods, was also underscored by the 1985–86 recession. These circumstances brought the larger structural question to the fore and led to a concerted move by Singapore's policy-makers to reduce reliance upon manufacturing production geared for developed-country markets.

In 1985, the Minister for Trade and Industry, Lee Hsien Loong, headed a top-level review of Singapore's economic strategy (Ministry of Trade and Industry 1986). Most importantly, the Economic Committee, as it was known, called into question the strategic role of the manufacturing sector, criticised the preferential treatment given to it and urged a shift in emphasis towards the services sector, notably to the banking and finance, transport and communications, and intellectual service industries. In keeping with its belief that Singapore's future was as a 'total business centre', it also called for the introduction of incentives for companies extending their commercial and manufacturing roles to include financial, technical, marketing and other corporate services to their networks of related companies in the region or worldwide, companies that used Singapore as their operational headquarters (OHIQs).

The Committee's report also thematically and explicitly rejected the interventionist policies of previous decades. Such policies, of course, had deliberately favoured particular forms of manufacturing production. Furthermore, it was argued that the expansive public sector had 'crowded out' the local private sector. Unlike in the past, the report continued, the local private sector was now bigger and capable of playing a more decisive economic role, and towards this end privatisation was recommended. This observation took place in a climate of increased disquiet from the domestic bourgeoisie who had viewed the policies of the second industrial revolution as discriminatory. Being predominantly based outside the manufacturing sector, or within the low-skilled, labour-intensive aspects of that sector, locally based companies were more the recipients of the sticks than the carrots associated with that strategy.

The Economic Committee's inquiry into the Singapore economy was characterised by widespread consultation with the local private sector. The Committee not only comprised representatives from the Singapore Manufacturers' Association, the Singapore Federation of Chambers of Commerce and Industry, and leading local entrepreneurs, it also sought the views of the local business community through various subcommittees and forums. This degree of consultation was unprecedented. However, it would be misleading to portray it as the arrival of the domestic bourgeoisie as an effective political force. The PAP had chosen to adopt this approach for a number of reasons, none of which amounts to serious concern about the political muscle of local entrepreneurs.

For one thing, the new second- and third-generation leaders, Goh Chok Tong, Lee Hsien Loong and others, did not harbour the deep suspicion of the domestic bourgeoisie that Lee Kuan Yew and his first-generation colleagues developed in the 1960s. The consultations also afforded an opportunity to provide substance to the PAP's claim that it was moving away from an authoritarian and paternalistic style of government—characteristics which appeared at the time to be a contributing factor in the
PAP's electoral decline in the 1980s. But there were also structural economic reasons. The capacities and orientations of the domestic bourgeoisie fitted more comfortably into official plans now that greater recognition was being given to the potential for promoting the services sector. For instance, locally based capital was comparatively well represented in the banking and finance industries. It was also connected to networks of overseas Chinese capital throughout Southeast Asia which might have a part to play in the regional economic integration championed in the Economic Committee's report. However, international finance capital had also shown a special interest in the 1980s in the services sector and the "sales pitch" of the Economic Committee was in no small measure directed at this and other fractions of international capital whose investments in Singapore were part of broader regional strategies.

In the immediate wake of the government's implementing the Economic Committee's recommendations, Singapore was to enjoy a rapid turnaround in economic fortunes. Gross domestic product grew by an annual average of 9.5 per cent from 1987 to 1990. Growth in the manufacturing sector was particularly strong. After experiencing negative growth of 6.9 per cent and 3.4 per cent in 1985 and 1986 respectively, manufacturing output grew by 23.6 per cent, 22.8 per cent and 11.2 per cent in subsequent years, with direct exports of manufactured goods rising from S$24.476.9 million in 1986 to S$47.203.3 million in 1990. Steady improvements in the value added per worker in the manufacturing sector also occurred, with the 1985 figure of S$42,436 increasing to S$60,488 by 1990 (Yearbook of Statistics Singapore 1990, pp. 3, 10-11).

The government was quick to put in place recommendations stemming from the Economic Committee's report. First, employer contributions to the Central Provident Fund (CPF) were reduced from 25 per cent to 10 per cent and contributions by employers to the compulsory Skills Development Fund (SDF) halved to 1 per cent. Second, a two-year wage freeze was introduced, and moves were made to break down the heavy reliance upon the central direction of the National Wages Council (NWC) and to promote greater flexibility within the wages structure. Third, a host of government charges on utilities, transport and communications were reduced, as were rents and interest rates affecting business. The corporate tax rate was also lowered from 40 per cent to 33 per cent. Furthermore, as part of the government's attempt to promote Singapore as a base for the servicing of business operations in the Asia-Pacific region, a concessional tax rate of 10 per cent was offered to firms establishing their regional headquarters in Singapore. To complement this, a Services Promotion Division was also created within the Economic Development Board (EDB). In other reforms, the government brought the Development Bank of Singapore (DBS) into line with other banks so that it too would be unable to make investments exceeding 40 per cent of capital funds, and deregulated land development and freight forwarding. Collectively, these policies signalled the government's greater sensitivity to the needs of business in general and the commitment to a more diversified economic structure.

### Table 11.1 Growth rates in key economic indicators 1985–90

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP per cent</th>
<th>Man. output (S million)</th>
<th>Man. exports per worker (S million)</th>
<th>Man. value added (S million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>-1.6</td>
<td>38,818</td>
<td>24,390</td>
<td>42,436</td>
</tr>
<tr>
<td>1986</td>
<td>1.0</td>
<td>37,953</td>
<td>24,477</td>
<td>48,352</td>
</tr>
<tr>
<td>1987</td>
<td>8.4</td>
<td>46,338</td>
<td>30,561</td>
<td>52,483</td>
</tr>
<tr>
<td>1988</td>
<td>11.1</td>
<td>55,005</td>
<td>37,399</td>
<td>55,302</td>
</tr>
<tr>
<td>1989</td>
<td>9.2</td>
<td>63,924</td>
<td>42,546</td>
<td>58,413</td>
</tr>
<tr>
<td>1990</td>
<td>8.3</td>
<td>70,993</td>
<td>47,530</td>
<td>60,488</td>
</tr>
</tbody>
</table>

*Preliminary

Source: Yearbook of Statistics Singapore 1990

However, this quick turnaround did not obviate the need for a structural transformation of the economy. Rather, it simply provided breathing space within which this might occur. For one thing, the recovery of the manufacturing sector owed much to the strong demand from the US market for electronic products and components, especially in the computer industry. While this was to be welcomed in one sense, it also consolidated the structural dependence, hence susceptibility, of the manufacturing sector. Indeed, it was pointed out as a matter of concern in the Strategic Economic Plan, the work of the tripartite Economic Planning Committee released in October 1991, that around 35 per cent of all non-oil domestic exports go to the United States, of which electronic items comprise more than half (Strait Times 18 October 1991, p. 48). Furthermore, nearly 90 per cent of the top ten exports are electronics items (Strait Times 14 October 1991, p. 36). So this recovery did nothing to alleviate the vulnerability of the manufacturing sector.

A second factor in the recovery was the changing attitude of Japanese investors to Singapore. The rapidly appreciating yen had by this time begun to threaten the competitiveness of export production from Japan, forcing a substantial transfer of production facilities abroad. Threats of trade sanctions against the Japanese because of their substantial trade surpluses was another factor. Export production from sites abroad was one way of attempting to reduce this tension. Certainly Singapore's reduced cost structures aided the republic in luring Japanese investment commitments, which stood at $234.1 million in 1985 but by 1988 had reached $369.1 million after falling back slightly to $354.1 million in 1989. From 1986 Japanese commitments exceeded those by the United States to become the leading source of commitments (EDB Yearbook 1988/89, p. 18). Singapore was actually benefiting from a global expansion in Japanese investments, one that was giving the republic an extended if not guaranteed life as a base for global IOI production.
But in spite of Singapore's extended life as an EOI base, fortuitous circumstances now present an opportunity for Singapore's economic transformation, as they did in the mid-1960s when the collapse of political merger with Malaysia coincided with favourable international investment trends. This time, however, two important recent developments in the region open up opportunities for Singapore to move towards greater economic diversification.

The first of these developments is a change in global corporate strategy by many TNCs, leading to the widespread adoption of the concept of 'regional focus' (Ng & Sudo 1991). Increasingly TNCs are decentralising operations in recognition of the need for rapid and locally informed decisions about technologies and markets. To a significant extent, this decentralisation is guided by the notion that the world economy can best be serviced by treating the three dominant economic regions of North America, Europe and the Asia-Pacific region as relatively discrete. The aim is still to operate business globally, but the means for achieving that have been modified and led to more complete and integrated production and management systems within definable regions. In particular, the Asia-Pacific region is no longer viewed exclusively as a centre for low-cost production of goods to be transported back to the markets of Europe and America. Rather, it is now seen to constitute a sizeable market in its own right, and one that is projected to expand considerably.

We saw above that some of the more significant gains in value-added investments in manufacturing by TNCs in the period of the second industrial revolution were influenced by the growth of the Asia-Pacific market. Understandably this nascent trend was given a fillip by the new corporate approach to global business. So TNCs manufacturing in Singapore have been encouraged by head office to explore regional markets more seriously and, what is more, there is now more preparedness to move upstream technologically if regional markets, existing or anticipated, are likely to be better serviced that way. Consequently, investments in production engineering, product development and higher value-added processes across a range of industries are now more forthcoming. This does not necessarily mean there are no limits to the sorts of production that will now be undertaken in the region. So long as there is a global head office at all, it will continue to make sense for the highest level research and develop-

4 For some examples of TNCs that have expanding interests in the Asia-Pacific markets investing in these higher value-added areas see 'Du Pont to invest $300m in polymer sector', Singapore Investment News February 1989, p. 1; 'SOS-Thomasson sets up its third diffusion module', Singapore Investment News May 1989, p. 3; 'Oxaro gears up for more Asia-Pacific business', Singapore Investment News October/November 1990, p. 3; 'Becton Dickson sets up $130 million plant', Singapore Investment News February 1989, p. 3; 'Rouenmount setting up new Asia-Pacific support centre', Singapore Investment News February 1989, p. 5.

5 The actual extent of autonomy of these regional centres from TNC headquarters in the home country obviously varies from case to case, depending amongst other things on local factor endowments and the nature of the technology involved.

6 During the period 1983-88, Singapore's average annual growth in GDP of 5.7 per cent compared with 4.6 per cent for Malaysia and 6.0 per cent for Thailand. For the period 1989-91 though, Singapore's 7.9 per cent expected annual growth in GDP compares with 5.0 per cent for Malaysia and 9.8 per cent for Thailand. See For Eastern Economic Review (Honkai FEER) 26 February 1991, p. 72.
the 1990s of 2.9 per cent per annum, five times faster than in Singapore (FEER 28 February 1991, p. 72). But in some instances, progress in these would-be NICs has been rapid enough to involve already direct competition with Singapore in relatively skilled areas, such as disk drive manufacture (Strait Times Weekly Overseas Edition 22 September 1990, p. 13; 29 September 1990, pp. 13-14).

Over time, the relative attractiveness of these emerging NICs (vies-a-vies Singapore) as export manufacturing production sites is likely to be greatly enhanced, as infrastructure improves and Singapore’s limited labour supply continues to hold back production and raise costs.7 The increased exploitation of these sites by other Asian NICs as a means of containing trade surpluses with the United States, and more generally as an avenue for accumulation by emerging TNCs from these countries, is giving this process added impetus.

Thus, Singapore’s position as a global manufacturing production site will necessarily become even more narrowly focused on higher value-added products and processes, thereby further compressing the scope for industrial expansion. However, in light of the trend towards strategic management involving ‘regional centres’, this development is not so much the threat it would otherwise be. On the contrary, to the extent that this creates the opportunity for broader regional divisions of labour which integrate manufacturing with other sectors, it has the potential to be more functional for Singapore’s economic transformation.

The borderless economic zone: the Singapore-Johor-Batam Growth Triangle

Certainly the most imaginative initiative from the Singapore Government, which expresses the desire to more fully integrate Singapore’s economy with those of the region, has been its championing of the so-called Growth Triangle. This was first outlined by Deputy Prime Minister Goh Chok Tong in December 1989 and further elaborated throughout 1990. The idea is for Singapore, the state of Johor in Malaysia, and Batam and the rest of the Riau Islands of nearby Indonesia, to be jointly developed to form a complementary division of labour. According to Goh, Batam and Johor could provide land, gas, water and labour for industrial development in these states while Singapore could provide the management expertise. The hierarchy of the relationship would have Batam concentrating on labour-intensive industries, Johor on intermediate-level industries and Singapore on capital- and knowledge-intensive industries and services. Goh also envisages the promotion of the triangle as a ‘Caribbean tourist play-

7 The labour problem’s continuing severity is underlined by the increase in foreign workers from around 150,000 in 1985 to 317,000 in 1990. See Business Times 29 June 1991, p. 1.
range of factor endowments and market opportunities. Malaysia in general, and the state of Johor in particular, were certainly caught up in these developments, and the relationship between Singapore and Johor was evolving accordingly. However, at the time Koh first referred to the Growth Triangle, Singapore’s economic relations, and for that matter Johor’s, with Batam and the other Riau Islands were minimal. Let us look at the two relationships in turn.

The growth in foreign investment in Malaysia has been quite spectacular since the mid-1980s. Total approved foreign investment in Malaysia has risen from $55687 million in 1985 to $12215 million in 1989 and $128188 million in 1990. Important to these gains have been substantial increases from East Asian-based capitals as a response to appreciating currencies and rising domestic labour costs. In 1990, Taiwan-based capital accounted for 36 per cent of approved foreign investment and Japan-based capital 24 per cent. Investments in Johor have increased considerably in that time, from $827 million in 1985 to $2736 million in 1989, before dropping slightly to $209 million in 1990. Johor’s share of total foreign investment in Malaysia has jumped from 14.6 per cent in 1985 to 22.3 per cent in 1989, before dropping to 7.4 per cent in 1990 (Kamli et al. 1991, pp. 57-9). Infrastructure bottlenecks, notably the delay in the completion of a second causeway to Singapore, labour shortages and the emergence of Batam as an alternative site for foreign investors are factors in this relative slowdown. Textiles, chemical, and food manufacturing industries have proven the most attractive to date in Johor, in contrast with the two other major industrial centres in Malaysia (Selangor and Penang), where the electrical and electronics industries are most prominent.

The relationship between Johor’s industrial surge and Singapore’s economic development has two aspects. First, in absolute terms Singaporean investment increased substantially in this period, from $184 million in 1986 to $915 million in 1989 and $995 million in 1990. The textile, basic metal, and electrical/electronic industries have been the major recipients of this investment. A significant component of this growth is comprised of relocations due to rising costs in Singapore. But second, even before talk of a Growth Triangle, hundreds of TNCs had been operating in Johor while incorporated in Singapore, taking advantage of the republic’s liberal trading regime and superior infrastructure, but at the same time exploiting the cheaper labour of Johor (Ng & Wong 1991, pp. 139-40). Production may have taken place in Johor but often payments for export goods were made in Singapore (Strait Times 24 July 1990, p. 27).

Substantial foreign-investment increases in Indonesia have been much more recent than in Malaysia. Cumulative (approved) foreign investment

8 The rise of Taiwan-based capital has been dramatic. In 1986 it accounted for just 0.64 of total approved foreign investment. See Ministry of Finance, Malaysia 1991.

9 Whereas between 1979 and 1986 the republic’s investment in Indonesia amounted to $132,448.8 million, in the subsequent three years the figure rose to nearly $550 million (Chen 1990, p. 18). This included a four-fold increase in Singapore’s investments in Indonesia in 1988, from $123,800 million to $125,500 million, mainly due to investments by banks in response to deregulations within the Indonesian finance sector (Strait Times 13 July 1989).
hectares of land (Soh & Chuang 1990, p. 44). The infrastructural and other investments are guided by the notion that Batam will essentially concentrate on the electronics industry and Batna on light industry and tourism.

The Singapore Government is also the largest shareholder in the Sembawang group of companies, which plans to develop another member of the Riau Islands, Kutarman, into a heavy industrial centre. It proposes to do this on a joint-venture basis with Bangun Cipta and members of the Salm Group. One estimate is that the cost of the phased ten-year developments would amount to $1 billion (FEER 27 February 1992, p. 60).

In other measures to foster the Growth Triangle, the government has streamlined customs procedures to facilitate traffic between Riau and Singapore (Straits Times 30 May 1990, p. 40); made Skills Development Fund (SDF) grants available to Singapore-based companies operating in Batam or Johor but training workers in Singapore; rendered income earned by companies in Batam but remitted to Singapore tax free (Straits Times Weekly Overseas Edition 12 January 1991, p. 4); provided expertise for a training institute in Johor (Straits Times 24 November 1990); and linked Singapore's telecommunications system directly to Batam's to avoid having to be routed via Jakarta (Straits Times 30 May 1990, p. 40). Lee Kuan Yew was also instrumental in persuading President Soeharto to liberalise investment regulations in Riau.11

In its various initiatives then, the Singapore state is playing two complementary roles. First, it is playing a direct part in creating the fundamental physical and social infrastructural conditions in and for its 'neighbourhood' that were so important to Singapore's own earlier industrialisation. Second, it is actively promoting and cultivating the use of Singapore's advanced infrastructural, managerial and other systems in these industrial programmes. At another level, the heavy involvement of the Singapore Government in Batam has engendered a degree of investor confidence because of the record Singapore has built up for efficient and corruption-free investment processing. This factor was made quite explicit by the managing director of the first operation established in the Batam estate, a $330 million project by a subsidiary of the Japanese giant Sumitomo to manufacture wire harnesses.12

Incidentally, the strategic use of direct investments abroad by the Singapore Government is not peculiar to the promotion of the Growth Triangle. Many government-owned companies are now pursuing 'internationalisation' as a logical and even necessary step in their capital accu-

11 This resulted in Indonesia declaring that foreign investor in Batam could, for the first five years, retain 100 percent ownership if their investment in manufacturing was completely export-oriented. For the rest of Indonesia, the maximum initial foreign ownership is 51 percent or less. See ASWJ 5 December 1990, p. 10.

12 See Asia Magazine 8–10 February 1991, p. 10.

13 Gearing up for global expansion began in 1989 with the restructuring of Sheng-Li Holding, which was formed in 1974 by the Ministry of Defence to bring a range of government companies under one management. The 48 companies under Sheng-Li's wing were regrouped to form four main companies: Singapore Technologies Industrial Corporation, Chartered Industries of Singapore, Singapore Aerospace and Singapore Shipbuilding, respectively covering the four areas of industrial, defence, aerospace and marine business. Subsequently in 1990, Sheng-Li Holding changed its name to Singapore Technologies Holdings (STH), thereby housing 32 companies under a single banner with an annual turnover in excess of $1 billion. This was expected to raise the collective profiles of the different companies and effect rationalisations of the group's operations. The government also announced the floating of four STH companies on the stock exchange. In each case, however, the government would retain at least a 50 per cent share and hence control of the company. According to the Minister for Trade and Industry, Lee Hsien Loong, listing the companies is intended to improve greater market discipline and flexibility, resulting in a more effective exploitation of joint venture and other relation-
ships with overseas high technology companies. While there were obvious general economic benefits to be had from this, greater access to advanced technology would also ensure a more profitable deployment of STH's vast cash holdings and this was never far from policy-makers' minds. The partial opening up to the private sector should, therefore, be seen as a means to an end rather than an end in itself. See Economist Intelligence Unit (1989, pp. 9–10).

14 These include: the establishment with Siemens Semiconductor of the United States of Chartered Semiconductor to build a $500 million wafer fabrication plant in Singapore; a 50–50 joint venture with Compusys Calt International of France to sell smart cards in the Asia-Pacific region; the establishment of Advanced Computer Systems with IBM to provide various computing ser-
vices; a joint venture with Grummam World Enterprises Corporation in super-
computers and computer-integrated manufacturing services; joint production with Aerospatiale of 600 Airbus passenger jets; and a $213 million interest in Pratt and Whitney's programme to manufacture turbofan engine parts. See Chuang 1990.

15 For a fuller account of the divestment process and the implications for the government's role as an investor see Asther 1989 and Ng 1989.
in Batam Industrial Park by the end of 1990 amounted to S$1685.9 million and involved 48 projects. Singapore was the largest investor with S$1344 million, followed by the United States with S$185 million and Hong Kong S$121 million (BIDA in Ng & Wong 1991, p. 142). The most common focus of investments has been in labour-intensive electronics and electrical production, including private and government-owned Singapore companies such as NalSteel Electronics, Singatronics and UIC Electronics (Soh & Chuang 1990). However, to date greater interest by Singapore’s domestic bourgeoisie has been shown in tourism and property. The list of project commitments in these areas is already extensive.16 Singaporeans have also dominated the purchase of residential properties in Batam, raising fears of speculation and prompting the Indonesian Government to consider imposing a quota on the number of non-resident foreigners allowed to invest in residential properties in Batam (Straits Times 24 March 1990, p. 3; Straits Times Weekly Overseas Edition 30 June 1990, p. 20). The Singapore Government’s expectation is that this profile will become more diversified as the inflow of TNCs and industrialisation gather pace in Batam and draw directly on the infrastructure of the republic.

The political challenges of the new development phase

Significantly, no detailed trilateral agreement has yet been worked out or even determined necessary to formalise the Growth Triangle concept. Co-operation to date has been largely on a bilateral basis.17 Indeed, despite public statements of support for the concept, both the Malaysians and Indonesians harbour some reservations, and there are a number of inherent political problems associated with this idea of an ‘economic state’.  

16 This includes: the construction of a S$17.5 million four-star hotel and five blocks of commercial buildings by Farmhill Investment Corporation; the partnership of Haw Par Brothers International with the Indonesian Igisa Hapun Group in a proposed S$15 million golf course; the S$30 million investment by Koh Brothers Building and Civil Engineering in a commercial and residential project; the involvement of several Singapore companies, including Island Club Investment, in partnership with Indonesian PT Marina City Development Group and various Japanese companies in a S$1 billion ‘Waterfront City’ project; the Keppel Group’s partnership in a S$20 million tourist complex; National Iron and Steel’s proposal to build 100 factories on Batam; and Guthrie GTB’s plans to join with Indonesian partners in the development of a multi-million-dollar recreation and tourism project. See Soh and Chuang 1990; Liew 1991, p. 15; Business Times 29 March 1990, p. 1.

17 So far, the only formal agreements are embodied in the Singapore–Riau Accord to develop tourism, water supply and industries in the Riau Islands, which resulted in the Memorandum of Understanding (MOU) in 1990.

For one thing, there are understandable Malaysian suspicions that such a division of labour will disproportionately benefit Singapore, and consolidate its economic supremacy over Malaysia (Strait Times 24 July 1990, p. 27; 1 September 1990, p. 35; 20 October 1990, p. 23). This is not so urgent a question for Indonesia given the economic gulf between it and Singapore. However, the industrial potential of Malaysia is not reliant upon the Singapore connection for its realisation. Rather, it would appear to have the prospect of a more integrated and sophisticated manufacturing sector in the longer run than is possible within the city-state.

Yet another concern is that the land, labour and natural-resource endowments of Johor and Riau are similar, even if these two states are at different stages of development. It is thus unclear whether deep linkages can be developed and sustained between these states. The obvious complementarities are between Singapore and Batam, and between Singapore and Johor. This raises speculation that the triangle is a marketing device to sell Singapore’s special interests in closer bilateral economic integration.18 Moreover, Johor’s attraction of investments in intermediate-level technology is not representative of all states of Malaysia. Hence, the other Malaysian states at a more labour-intensive stage of industrialisation come into competition with Batam for capital investment.

More broadly, there is the multifaceted set of problems around the issues of equality and distribution between states which both Malaysian and Indonesian central governments have to address, but their counterparts are not troubled by in the sovereign city-state. For one thing, the rapid industrialisation of those Malaysian and Indonesian states within the triangle must demonstrably benefit citizens in other states and provinces in those nations. Conspicuously better standards of living in these states, especially where central governments have fostered the Growth Triangle, would be unsustainable politically. Similarly, it would be difficult for Malaysia’s central government to grant duty-free status to the state of Johor, to bring it into line with Singapore and Batam, without appearing to discriminate against other Malaysian states. Extending the provision of free-trade zones within Johor may be the best approximation possible in the circumstances.

Another political complication with the Growth Triangle centres around ethnicity. Understandably, there is no official encouragement of a public debate about this issue, but nevertheless there are real concerns in Malaysia and Indonesia that the Growth Triangle may simply consolidate the pre-eminence of Southeast Asian Chinese business groups. Already, of course, there are strong economic ties between the Southeast Asian Chinese of Singapore and Johor for obvious historical reasons. However, the overall consequence of the Growth Triangle and general development of Johor has been an increasing penetration by Singaporean Chinese

18 As Kamil et al. (1991, p. 68) state, ‘many are of the opinion that the Growth Triangle is nothing but a corridor to be managed by Singapore’. 
investors into residential markets for speculative purposes (\textit{Straits Times} October 1990, p. 20), a trend as we have seen above even more conspicuous in Batam. The ethnicity factor can, of course, easily be exploited for political reasons. In Malaysia, Tengku Razaleigh Hamzah, the president of the opposition party Semangat '46 or 'Spirit of '46',

19 aroused community concern recently with a claim that the Growth Triangle concept was a scheme to bring Hong Kong Chinese to Johor following the takeover of the colony in 1997 by China (\textit{Straits Times 4 June 1991}, p. 19). There have also been public expressions of concern from within the Indonesian military about the prospect of an enclave of Indonesian Chinese capital forming within the Growth Triangle; the basis of this concern is probably the centrality of the Salim Group in developments in both Batam and Bintan. Rinu's Governor, Soeripto, has also had to defend charges contained in two Indonesian newspapers, 	extit{Media Indonesia} and \textit{Suara Karya}, that the province is being "sold off" to Singapore (\textit{Business Times 27 September 1991}, p. 1).

An unavoidable political problem for the Malaysian and Indonesian states, which again poses no problems for Singapore, is reconciling the Growth Triangle with national sovereignty. Neither central government is keen to surrender real powers, nor to be seen to be compromising national interests. The frequency of unilateral relations between Singapore and Johor in the discussions of the Growth Triangle concept already appear to have raised some concern in Kuala Lumpur: either that Singapore, and to a lesser extent Indonesia, may be trying to by-pass the federal government in negotiations, and/or that Johor is acting more autonomously than is appropriate (\textit{FEER} of October 1991, p. 30). Given that the first approaches over the Growth Triangle were made to the state rather than federal government, the attitude in Kuala Lumpur is understandable.

However, if in spite of the obvious problems cited above there is to be real progress towards a single investment zone, then some quite specific forms of political cooperation will be required. In particular, there would appear to be a need for a single authority to administer uniform regulations and incentives covering investments within the Growth Triangle. Negotiating such an arrangement will be complicated and cannot, in any case, guarantee uniform efficiency. For instance, even though the Batam industrial estate is a joint Singapore–Indonesia exercise, there are disproportionate bureaucratic delays in investment approvals. There are limits to how far Singapore authorities will be able to institutionalise their model of public administration. Another logical requirement is the free flow of labour between the three states. Here the Singaporeans have proposed ways of simplifying the passage of non-Indonesians to Batam and modifications to their own regulations to enable workers from Johor and Batam to be trained in Singapore. But this falls short of a free-labour market, something which would pose a potential threat to Singapore's desire for tight control over the social and ethnic complexion of the population.

Three points emerge from the above. First, Singapore's greater enthusiasm for the Growth Triangle in part reflects the city-state's absence of separate provinces or states and the associated political complications. But second, it also reflects the greater economic reliance of Singapore upon economic integration with neighbouring and regional economies due to the need for structural diversification. Finally, while the implementation of the Growth Triangle concept will involve extensions of the geographic influence of the Singapore state, this influence will be highly conditional and may even come at a cost to domestic state control in certain areas, should a free-labour market eventuate.

There is, however, the danger of over-emphasising the importance of the Growth Triangle as a particular form of economic cooperation. What is most crucial for Singapore is a broader regional application of the principle of comparative advantage, ideally one which is no longer wedded to the concept of the nation-state. At the very least, Prime Minister Goh wishes to see the emergence of a spirit of 'competitive co-operation' between states in the region. 20 But selling this idea is a delicate matter. Hence, in the attempt to persuade the broader regional community of the virtues of the Growth Triangle, Goh has drawn on wider developments in the international economy. He has argued that the formation of cooperative economic groupings in Europe, where there will be a single market from 1992, and North America, which involves Canada, the United States and Mexico in a free-trade zone, threatens the ability of ASEAN countries to attract investment from TNCs. According to Goh:

\begin{quote}
On its own, each ASEAN country does not offer a full range of advantages which Europe and North America can. Asian countries are not yet ready to offer a borderless market to investors. But we can combine resources to make ourselves more competitive. This is the philosophy driving the Growth Triangle. Here we are combining resources to compete for investments as a region (\textit{Newspaper 24 April 1991}, p. 8).
\end{quote}

This is a clever way of presenting the case because on the surface it would appear that the emergence of an assortment of sub-regional growth triangles would threaten ASEAN's status as a regional economic forum.

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19 Semangat '46 was formed out of the split within the ruling United Malay National Organization (UMNO) in 1988. UMNO was dissolved, resulting in Prime Minister Mahathir leading the reconstituted UMNO Baru and Tengku Razaleigh the Semangat '46. The latter has been particularly concerned about what it views as the watering down of measures to bolster the position of Bumiputras, or indigenous Malays, and the consequent inflow of foreign investors.

20 According to Goh, 'competitive co-operation' means 'working together to attract generic investments into the region and competing, through the market mechanisms, to have particular investments located in your country' (Goh Chok Tong 1991, p. 6).
There is no doubt that the developments cited by Goh are of concern to ASEAN members, and account in large part for the recent surge of regional meetings about and proposals on economic cooperation within Asia. It is in this climate, at the fourth ASEAN Heads of Government Summit in Singapore in January 1992, that significant new ground was broken towards regional economic cooperation. Three important agreements were reached. One was the Framework Agreement on Enhancing ASEAN Economic Cooperation which identifies areas of potential cooperation such as trade, industry, finance and banking, and transport and communications. Moreover, it explicitly recognizes the development of sub-regional growth areas, either within ASEAN or involving ASEAN and non-ASEAN states. The agreement thus endorses the Growth Triangle concept, despite the problems outlined above.

Even more significantly, another agreement contained in the Singapore Declaration commits member states to the establishment of an ASEAN Free Trade Area (AFTA) by the year 2008. The proposal actually came from the then Thai Prime Minister Anund Panyarachun, with general acknowledgement of Goh's point that developments in Europe and North America were 'defining the new operating environment for ASEAN' (Goh in FEER 6 February 1992, p. 10), making competition for international investment much fiercer. The prospect of a single ASEAN market comprising about 300 million people and a combined gross national product of $US300 billion is intended to serve as a powerful counter-attraction for investors. To date intra-ASEAN trade has been modest, amounting to just $US23.3 billion in 1991. By contrast, the group's trade with the rest of the world in 1991 was valued at $US268 billion (Australian Financial Review 29 January 1992, p. 12).

However, recognising the need to move in this direction and implementing such a vision are different matters. When the idea for AFTA was first mooted, the timetable for change was ten not fifteen years. Indonesian authorities in particular have reservations about the timing of the transition. Understandably they do not want their relatively under-developed economic status to be consolidated through a disadvantageous regional division of labour. They would appreciate more time to build up competitiveness in a range of industries. The Agreement on Common Effective Preferential Tariffs (CEPT) which is designed to phase AFTA in, thus involves the accelerated reduction of tariffs on fifteen product groups, covering manufactured, processed agricultural, and capital goods over the fifteen years. What is not clear, however, is how extensive the list of exemptions to this will be. The possibility of exemptions is built into the agreement and, of course, too extensive a list will undermine the concept of AFTA.

Regardless of the inevitable and unsolved problems of implementing the AFTA, clearly the moves to date are a measure of the concern within ASEAN that the changing global political economy demands a new level of regional economic cooperation. This has worked in favour of gaining acceptance for the Growth Triangle concept. However, since the services sector is as yet covered by a less specific agreement negotiated at the January meeting than in manufacturing, the Singaporeans have some way to go yet before achieving the institutionalisation of the preconditions for a regional division of labour that fully reflects their economic aspirations. The prospects here would be enhanced, of course, should the Growth Triangle demonstrate that Singapore's superiority in this sector can serve to bolster neighbouring economies.

Conclusion

After a period of rapid economic growth following the adoption of an EOI programme, Singapore's policy-makers came to question the wisdom of increased reliance upon this strategy. By the mid-1980s, the scope for sustained industrial expansion began to look problematic. In any case, as the mid-1980s recession underlined, such a strategy brought with it acute vulnerability to changing demand in a handful of industries. Fortuitously, more complex patterns of international capital investment involving regional divisions of labour have presented opportunities for a lessening of direct dependence upon the markets of the advanced capitalist countries, notably that of the United States.

In the subsequent revision of economic strategy, imaginative initiatives have been taken to foster Singapore's economic integration with regional economies, with special attention to the exploitation of Singapore's competitive advantages in the services sector. In the process, we have seen the Singaporean state attempt to shape the investment climates in neighbouring states in an endeavour to harness investment trends to a sub-regional division of labour based on rational specialisations. In this new phase of development, the Singaporean state thus continues its active dialectical engagement with international capital. Certainly the Growth Triangle concept and supporting policies are a stark example of the reluctance to passively accept market forces. However, the state is also forced to play a more adventurous role and one in which its political and social control over the now-extended physical environment within which investments are made is reduced. Moreover, development prospects will increasingly depend upon the extent to which Singapore's neighbours come to share a similar vision of 'competitive co-operation'.

The collective political will of states is required not only to ensure that economic integration is possible, but also to address social and political challenges associated with this. Indeed, one of the paradoxes of the Growth Triangle is that while it may transcend the organisational logic of the nation-state, and even threaten to reduce the political power of any individual nation-state, the initiatives and cooperation of states are nonetheless critical to its viability. Sub-regional economies would appear to exert pressure for a reformulation of the state's international relations,
but not an abandonment of its function of assisting capital accumulation. But even more importantly, social and political problems stemming from labour migration, increased income inequalities within states, and other possible outcomes of sub-regional economic arrangements will need to be effectively managed. This necessitates new levels and forms of political cooperation between states.

The recent promotion of the Growth Triangle, and the more general attachment to greater regional economic integration by Singapore’s policy-makers, also reflects a major shift in the global strategies of TNCs. Previously, TNC investment in export production in the Asia-Pacific region has tended to be primarily motivated by the desire to exploit low-cost labour. Production has been geared largely to consumer markets in the advanced countries outside the region. That strategy has had serious implications for the forms and range of production undertaken in the Asia-Pacific area by TNCs. Now, however, in an endeavour to more fully exploit rapidly expanding markets in the area, we are witnessing changes to manufacturing production located in the region and greater interest in a variety of non-manufacturing activities. The maturity and internationalisation of NIC-based capital—the emergence of regional TNCs—adds another dimension to this process. Such developments are simultaneously a force for more comprehensive economic activity in the region, yet also for increased specialisation. The extent of that specialisation will be as much a political determination as anything else, but as we have seen above, the mood in ASEAN is becoming more accommodative of specialisation in view of larger global economic trends, which have necessitated a more serious pursuit of intra-ASEAN trade.

ASEAN’s new preparedness to commit itself to economic cooperation comes at a time when its raison d’être has been questioned. In the past, it has been regional security questions, and in the immediate past the question of Cambodia, that have given purpose to the forum. This led to speculation that, in the event of a solution to Cambodia’s political problems, the future of ASEAN would be problematic. But while it appears that the changing global political economy has given new life to ASEAN, is this sustainable? In particular, what are the implications of sub-regional economies like the Growth Triangle for ASEAN? Most certainly ASEAN offers a convenient and appropriate forum through which such initiatives can obtain political support. To that extent ASEAN is an important and even necessary facilitator of sub-regional economies. But, once in place, a series of flourishing sub-regional economies would logically demand a modified and more decentralised forum to sort out the various, quite specific cross-state problems of economic integration. The relevance of collective decision-making by all ASEAN members would presumably diminish. At the very least, ASEAN would need to reorient itself to meet such new circumstances. The implications for any broader regional economic grouping would be similar.

Given the complications and challenges associated with sub-regional economies like the Growth Triangle, the success or otherwise of this particular case will have significant ramifications. If the experience is one of substantially accelerated economic development in a politically manageable way, then the Growth Triangle is not only likely to assume the status of a model within policy circles in the region and beyond, it will also be drawn on to support the theoretical and ideological cases against economic nationalism.