



CRS Report for Congress

Singapore: Background and U.S. Relations

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Summary

A former colonial island trading and military outpost of the far-flung British Empire, the tiny Republic of Singapore has transformed itself into a modern Asian nation and a major player in the global economy. Singapore's heavy dependence on international trade makes regional stability and the free flow of goods and services essential to its existence. As a result, the island nation is a firm supporter of both U.S. international trade policy and the U.S. security role in Asia. The U.S.-Singapore Free Trade Agreement (FTA) went into effect in January 2004.

Historical Setting

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

SINGAPORE STATISTICS

Population: 4.5 million
Area: 647.5 sq. km. (about 3.5 times the size of the District of Columbia); one main island and 58 islets; extensive land reclamation
Ethnic Groups: 77% Chinese; 14% Malay; 8% Indian; 1% other
Language: Chinese (official); Malay (official and national); Tamil (official); English (official) widely used in business, professions, and schools
Life Expectancy at Birth: female, 84 years; male, 79 years
Literacy: 92.5%
Inflation Rate: 0.4% (2005 est.)
GDP (PPP): \$126.5 billion (2005 est.); *Per Capita* \$28,600 (2005 est.)
Trade: exports \$204.8 billion (U.S. 11.5% - 2005); imports \$188.3 billion (U.S. 12.4% - 2005)
Source: CIA *World Factbook*



Government and Politics

Singapore's parliamentary-style government is headed by the prime minister and cabinet, who represent the majority party in Parliament. The president serves as a ceremonial head of state, a position currently held by former Singapore ambassador to the United States S.R. Nathan. In August 2004, Lee Hsien Loong succeeded Goh Chok Tong as prime minister. Lee is the son of former Prime Minister Lee Kuan Yew, who stepped down in 1990 after 31 years at the helm. The senior Lee, widely acknowledged as the architect of Singapore's success as a nation, reportedly continues to wield considerable influence with the title of Minister Mentor.

In the last parliamentary elections in May 2006, the governing People's Action Party (PAP) secured a decisive victory, capturing over 66% of the vote and 82 of 84 seats. Singapore has universal suffrage, and parliamentary elections are held at least every five years. The PAP has won every general election since 1959, aided by a fragmented opposition, Singapore's economic success, and electoral procedures that strongly favor the PAP. In 2006, the opposition parties picked up a marginal degree of support in terms of the percentage of overall votes cast, but only managed to maintain their two existing seats. The seats are held by veteran lawmakers from the Workers' Party and the Democratic Alliance party. The Workers' Party was given an additional seat in Parliament under a constitutional provision that grants a seat to the highest-scoring minority party if fewer than three opposition candidates are elected.

Economy

Aside from having the world's busiest port in terms of shipping tonnage, Singapore has the world's second largest container-port, one of the world's top-ranked airports,

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

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

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

Economic Setbacks and Recovery. By July 2001, the global economic downturn had pushed Singapore into a technical recession (two consecutive quarters of contracting GDP). The continuing slump in the major world economies was further exacerbated by the September 11 terrorist attacks on the United States. Singapore's export-driven economy was particularly hurt by the decline in demand for electronics, which account for two-thirds of its exports. The SARS epidemic and the war in Iraq caused the economy to contract further in 2003. Indications of an economic rebound began appearing in May 2004, however: exports, particularly in electronics and pharmaceuticals, expanded by double digit growth rates and unemployment eased slightly. The economy continued its strong performance in 2005, posting GDP growth of 6.4% for

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

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

the year.³ Despite a slow-down in electronic exports in 2006, the economy grew by an estimated 7.7%, fueled by a government decision to allow gambling in Singapore. As two mega-casinos are constructed, strong tourism numbers are expected to further increase.⁴

Regional Linkages. A trade-dependent economy, Singapore has adapted its strategy as the Asian economic landscape has shifted. U.S. economic strength and China's growth are crucial to Singapore's economic health. China (including Hong Kong) overtook the United States as Singapore's second largest trading partner in 2003. Singapore has also taken steps to shore up its economic relations with other neighbors: friendly overtures to top trading partner Malaysia have improved prospects for further cooperation, deals with India to link its consumer market and technology industry with multinationals are flourishing, and free trade agreements (FTAs) have been concluded with Australia, the United States, Japan, India, Jordan, South Korea, and New Zealand. Singapore is actively seeking further FTAs, as well as pushing aggressively for implementation of the ASEAN Free-Trade Area (AFTA). Such agreements are relatively easy for Singapore to negotiate because, in addition to having a mature, globalized economy, it has virtually no agricultural sector and its manufacturing is limited to specialized sectors.

U.S.-Singapore Relations

Trade and Investment. Singapore was the 16th largest trading partner of the United States with \$35.8 billion in total goods trade during 2005. Trade in services with Singapore totaled \$8.3 billion in 2004. U.S. foreign direct investment in Singapore expanded to \$56.9 billion in 2004, a 13% increase from 2003.⁵ The U.S.-Singapore Free Trade Agreement (P.L. 108-78) was enacted on January 1, 2004; bilateral trade between the United States and Singapore totaled nearly \$37 billion in 2005, an increase of 12.6% since the FTA went into effect.⁶ For information on the FTA and other trade issues, see CRS Report RL31789, *U.S.-Singapore Free Trade Agreement*, by Dick K. Nanto. Some 1,300 U.S. corporations operate in Singapore, with total investments of \$61.4 billion in 2002.⁷ This investment is concentrated mainly in electronics, petroleum, chemicals, and the financial sector.

Defense Cooperation. In addition to trade, mutual security interests strengthen ties between Singapore and the United States. Bilateral military access agreements allow the United States to operate resupply vessels from Singapore and to use a naval base, a ship repair facility, and an airfield on the island-state. The U.S. Navy also maintains a logistical command unit — Commander, Logistics Group Western Pacific — in Singapore that serves to coordinate warship deployment and logistics in the region. As part of the agreements, squadrons of U.S. fighter planes are rotated to Singapore for a

³ "Singapore: Curiously Dynamic," *Economist Intelligence Unit*. February 20, 2006.

⁴ "Singapore Economy," LEX Column, *Financial Times*. January 4, 2007.

⁵ Press release from the United States Trade Representative. March 30, 2006.

⁶ Press release from the United States Trade Representative. March 30, 2006.

⁷ "Singapore Country Commercial Guide, Fiscal Year 2004," U.S. Commercial Service. August 2003.

month at a time, and naval vessels make regular port calls. Singapore supported the U.S.-led coalition in the Iraq war and Operation Enduring Freedom in Afghanistan, allowing American aircraft and ships access to Singapore bases. It also sent a contingent of transport aircraft and ships to Iraq and contributed policemen to help train Iraqi police.

In July 2005, President Bush and Prime Minister Lee signed the “Strategic Framework Agreement” to formalize the growing bilateral security and defense relationship in counterterrorism, counter-proliferation of weapons of mass destruction, joint military exercises, policy dialogues, and shared defense technology. The agreement builds on the U.S. strategy of “places-not-bases” in the region, a concept that allows the U.S. military access to facilities on a rotational basis without bringing up sensitive sovereignty issues. A 1990 Memorandum of Understanding was updated in 2005 to continue to provide the United States with access to Singapore’s military facilities.

Counterterrorism Strategy⁸

Singapore has been at the forefront of anti-terrorist activity in Southeast Asia. A terrorist attack on the city-state could jeopardize its standing as the region’s financial and logistical hub. Shortly after the September 11 attacks in the United States, Singaporean authorities launched aggressive operations to counter terrorist activities. Under its Internal Security Act, Singapore has arrested dozens of suspected Islamic militants, 34 of whom remain in detention. Many of the militants are alleged to be members or sympathizers of Jemaah Islamiyah (JI), a designated foreign terrorist organization with reported links to Al Qaeda. In 2002, Singaporean authorities reportedly uncovered a JI plot to bomb the U.S. Embassy and other western targets in Singapore.

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

Singapore has demonstrated its commitment to fighting terrorism through a number of multilateral and bilateral agreements. It was a founding member of Proliferation Security Initiative (PSI), a program that aims to interdict shipments of weapons of mass destruction-related materials and was the first Asian country to join the Container Security Initiative (CSI), a series of bilateral, reciprocal agreements that allow U.S. Customs and Border Patrol officials at selected foreign ports to pre-screen U.S.-bound containers. Singapore has focused particular attention on maritime security measures, urging other littoral states in Southeast Asia to work together to protect critical shipping lanes. In addition to ongoing coordinated patrols of the Straits of Malacca and Singapore, Singapore, Malaysia, and Indonesia launched a joint security initiative to provide

⁸ For a more detailed discussion on Singapore’s counter-terrorism strategy, see CRS Report RL31672, *Terrorism in Southeast Asia*.

maritime air surveillance of the Straits in 2005. Singapore was also instrumental in establishing the Regional Cooperation Agreement on Combating Piracy and Armed Robbery Against Ships in Asia (ReCAAP). The ReCAAP Agreement promotes cooperation against piracy and armed robbery at sea in Asia. An information sharing center in Singapore will serve as a platform for cooperation. Eleven other Asian countries, but not Malaysia and Indonesia, have ratified the agreement.

Human and Civil Rights Issues

Although usually elected by a comfortable majority in free and fair elections, the PAP “uses the government’s extensive powers to place formidable obstacles in the path of political opponents,” according to the U.S. State Department’s 2005 *Country Reports on Human Rights Practices*. The PAP has maintained its political dominance in part by developing voter support through effective administration and its record in fostering economic prosperity, and in part by manipulating the electoral framework, intimidating organized political opposition, and circumscribing the bounds of legitimate political discourse and action.”⁹ According to Amnesty International, “The misuse of defamation suits by PAP leaders has contributed to a climate of self-censorship in Singapore.”

Especially during the boom years of the 1990s, the ruling PAP advocated what it terms “Asian values” as an antidote to Western liberal traditions. The PAP ideology stresses the government role in enforcing social discipline and harmony in society, even at the expense of individual liberties. Under the Internal Security Act, the government can prohibit or place conditions on publications that incite violence, advocate disobedience to the law, arouse tensions among the various ethnic, religious, and linguistic groups, or that might threaten national interests, national security, or public order. In October 2005, a Singapore court sentenced two ethnic Chinese bloggers for posting racist remarks about ethnic Malays, the first such prosecution under the Sedition Act.

Under Prime Minister Lee, Singapore has largely maintained its stringent social restrictions but indicated some increased tolerance. Chewing gum is now allowed, as are casinos and opposition party gatherings, provided they are indoors.¹⁰ Although Lee has emphasized the need for society to adapt to deal with modern challenges, he also remains adamant that a multi-party liberal democracy is not an appropriate model for Singapore. In an indication that the United States might increasingly challenge Singapore’s resistance to embracing participatory democracy, in 2005 outgoing U.S. Ambassador Frank Lavin warned that the Singaporean government “will pay an increasing price for not allowing full participation of its citizens.”¹¹ When Singaporean authorities banned activists from demonstrating at the September 2006 IMF meetings, World Bank President Paul Wolfowitz criticized the move as “authoritarian” and that Singapore should adopt, “a more visionary approach to the process.”¹²

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⁹ U.S. Dept. of State, *Country Reports on Human Rights Practices for 2005*, February 2006.

¹⁰ “Singapore Lightens Up at 40,” *Los Angeles Times*. September 25, 2005.

¹¹ “US Ambassador Takes a Parting Shot at Singapore,” *Financial Times*. October 13, 2005.

¹² “Singapore Activist Ban ‘Authoritarian’: Wolfowitz,” *Reuters*. September 15, 2006.