

International Cooperation and Integration: Lessons from Singapore and ASEAN

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نتقدم بثقة
Moving Forward
with Confidence



Lessons from Singapore

“It is a sophisticated mix of radical free-market and nanny state that requires sophisticated policy makers to implement, which is why politics here is not treated as sports or entertainment. Top bureaucrats and cabinet ministers have their pay linked to top private sector wages, so most make well over \$1 million a year, and their bonuses are tied to the country’s annual GDP growth rate. It means the government can attract high-quality professionals and corruption is low.

America never would or should copy Singapore’s less-than-free politics. But Singapore has something to teach us about ‘attitude’— about taking governing seriously and thinking strategically.

- Thomas Friedman, New York Times, 29 January 2012

“Long-term planning at the national level has become the mainstay of countries to achieve comprehensive and sustainable development.”

- His Highness Sayyid Haitham bin Tariq Al Said, Minister of Heritage and Culture, Head of Oman 2040 Main Committee

Lessons from Singapore: Export-led industrialization

- Similar to Japan, South Korea, Taiwan and Hong Kong
- But unlike the Northeast Asian economies, Singapore industrialized on the backs of Foreign Direct Investment (FDI) and multinational corporations (MNCs)
- Why is industrialisation necessary for economic development?
 - Machines allow manufacturing sector to scale up its production much more than in services, which are much less amenable to rapid productivity growth.
 - Trade in manufacturing is much greater than trade in services, which tends to be more domestic in orientation.
 - Trade is essential to economic development: to learn from more advanced economies and acquire new technologies

Relevance for 2040 goals:

- Attracting qualitative and high value added investments in the various economic sectors; renewable energy sector, manufacturing, agriculture, marine wealth and tourism
- Establishing clear regulations for foreign investments, consistent with global standards
- Being more open to investors for encouraging more long-term investments
- Strengthening and expanding the different existing economic sectors, create new sectors, localize knowledge

Lessons from Singapore: Capitalizing on strengths

Singapore's initial strengths:

- Deep water harbour, well-developed port that had established itself as an important entrepot, Singapore's geographic location
- Existing oil refineries that laid the foundations for the petrochemical industry that was promoted from the late 1970s
- Very good soft infrastructure, e.g. administrative capabilities, rule of law.
- Strong conviction in the advantages of free trade

Oman's existing strengths:

- Availability of natural and mining resources
- Geostrategic location
- Infrastructure: airports, roads, and ports that link Oman to the world through the Ocean
- Good relations with the rest of the world

Lessons from Singapore: Strategic industrial policy

Leave it to the private sector

- An economy should focus on its “natural” comparative advantages.
- Avoid industrial targeting: governments run into severe *informational* and *incentive* problems when they try to pick winners (public choice theory).
- Industrial policy increases the risks of government corruption and misallocation of resources, and often encourages rent-seeking behaviors from domestic firms.
- Export subsidies and import tariffs insulate domestic producers from competition, reducing incentives for them to be efficient and innovative.
- Hence, governments should invest only public goods and “sector-neutral” infrastructure.

Public sector must lead

- An economy can create its own comparative advantage; without state promotion/support, certain industries/markets would not emerge.
- Industrial policy can develop capabilities in new growth areas and enable economic diversification.
- Without government support, promising new industries cannot survive against global competition (infant industry argument).
- New industries often require *specific* inputs that can only be provided by the state, or the benefits of “discovery” cannot be fully internalized (externalities argument).
- Spillovers, network externalities and other coordination failures impede the growth of new industrial clusters.

Lessons from Singapore: Strategic industrial policy

- Strong state capacity combined with export orientation
- **Economic Development Board (EDB)** streamlined bureaucracy, provided one-stop service for foreign investors, provided generous but performance-related tax incentives, developed industrial parks
- **Embedded autonomy**: industrial policymakers must be embedded to understand the changing needs of the economy and of industry; but must also be *autonomous* enough to prevent capture by industrialists, politicians and other social forces
- In most countries, industrial policy often becomes an instrument for the distribution of patronage to supporters of the regime

Oman's biggest challenges:

- Economic diversification
- Job creation

Relevance for Oman 2040:

Strategic industrial policy is needed to meet these two challenges

- Role of stable economic leadership for clearly coordinating between fiscal, monetary, commercial, investment and industrial policies and labor market policies
- Transition to towards a knowledge-based economy

Lessons from Singapore: Strategic industrial policy

Sectors that the Singapore state promoted in the 1960s and early 1970s:

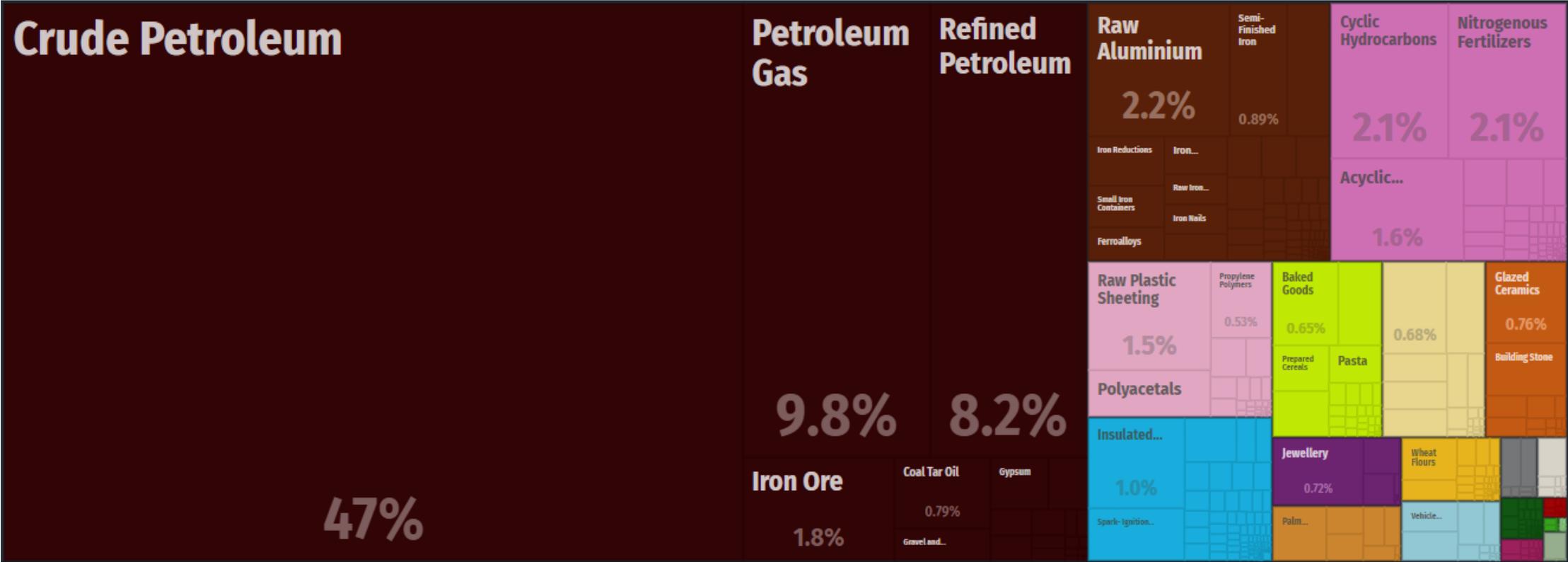
- **Textiles:** as an early exporter, Singapore retained textile quotas much larger than those that were subsequently awarded to lower-wage entrants (i.e. first-move advantage in export-led industrialisation)
- **Consumer Electronics and Semiconductors:** Technology developments enabled and encouraged sub-division and offshore sourcing of labour-intensive parts and components of the electronics value chain by MNCs like Fairchild Semiconductors, Texas Instruments and Hitachi. (Taking advantage of technology and global economic trends)

-**Shipbuilding and Repair:** Singapore transformed the former British naval base facilities into commercial shipyards run by new government-linked companies Keppel and Sembawang Corp (Initial endowment and path dependency)

Relevance for Oman 2040:

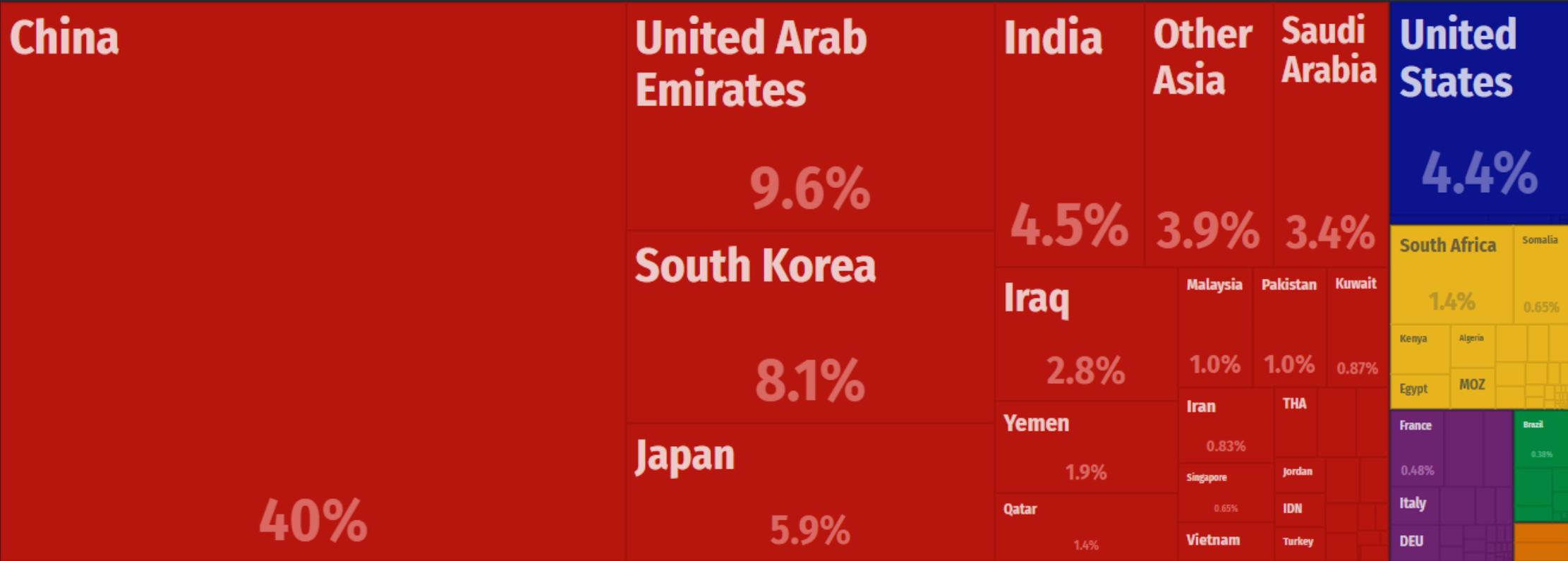
- Diversification of both goods and destinations is a key goal of the Vision
- “It is time for the economy and society to move from relying on scarce resources to innovation and knowledge, making use of the opportunities triggered by regional and international changes.”

Oman: Exports



Source: MIT

Oman: Export destinations



Source: MIT

Lessons from Singapore: Complementary Social Policies

- **Central Provident Fund (CPF)** system enabled high savings rate:
 - High savings needed to finance development
- CPF could also be used for housing, thereby allowing for government to avoid high spending in welfare. Home ownership also incentivised work
- **Public housing and CPF** are therefore not just innovative social policies; they are essential parts of a highly integrated *development strategy*

Relevance for Oman 2040:

“Oman 2040 represents an **integrated framework for economic and social policies** to be followed and adopted to enable the realisation of the aspired image of Oman by 2040.”

Development strategy should integrate both economic and social policies

Lessons from Singapore: Complementary Social Policies

- Education: emphasis on science, math and technical education
- Health investments, particularly in public health: eradication of malaria and other infectious diseases, child and maternal health
- Labor policies: outlawed strikes, the unions were brought to heel

Relevance for Oman 2040:

“Oman vision 2040 seeks to adopt a number of labor policies that contribute to changing the composition of the labor market from its current state, which rests on a large base of unskilled and unqualified labor, to a new structure founded on a large base of skilled labor. This is together with accompanying policies seeking to attract and incentivize a skilled workforce, while simultaneously encouraging new investments serving the transition towards a knowledge economy.”

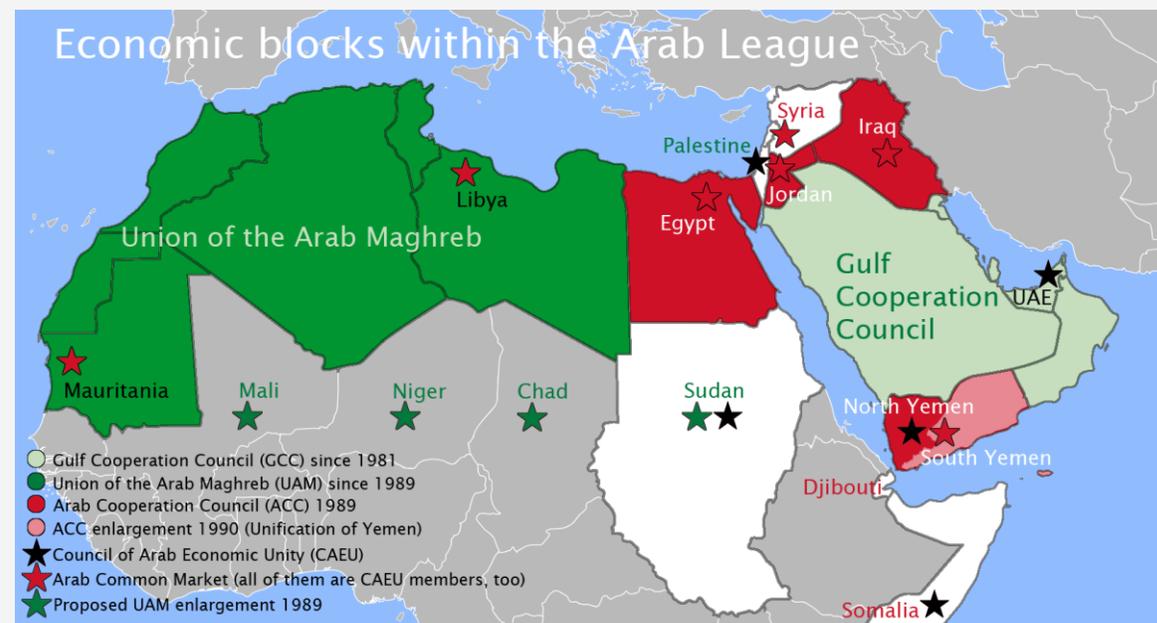
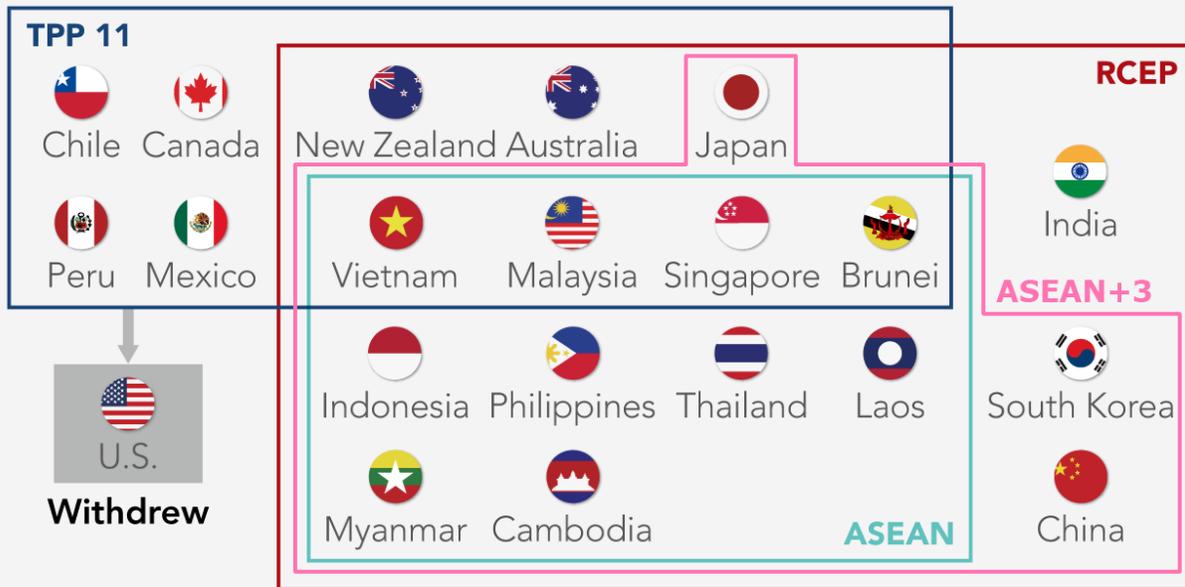
Lessons from ASEAN: International cooperation and integration

- ASEAN learned best practices of economic development from East Asian economies:
 - Japan
 - Four Tigers
- ASEAN founding nations wove themselves into the thriving East Asian economic ecosystem

Relevance for Oman 2040:

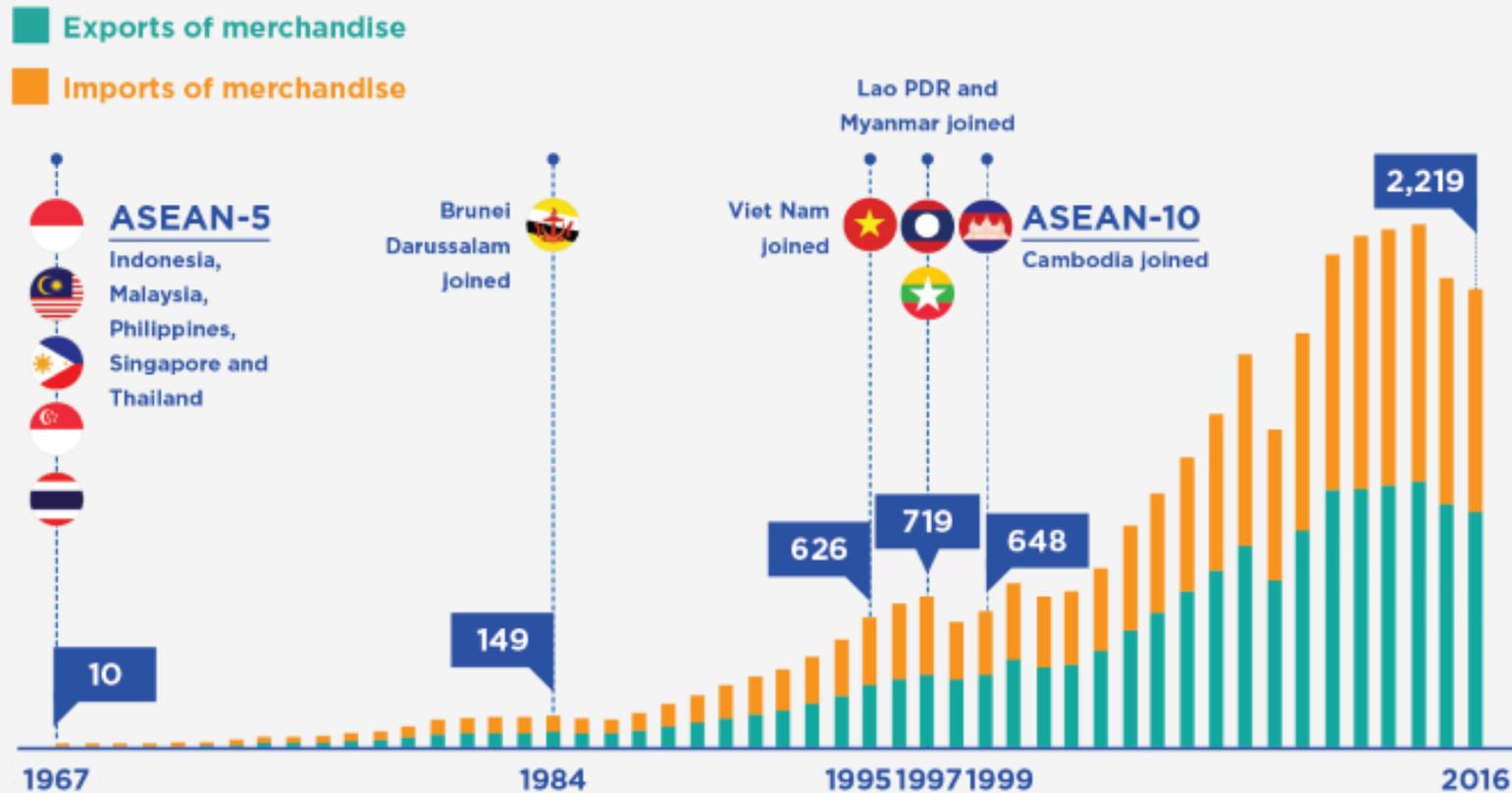
- Aim to move towards a development model based on integration and international cooperation:
 - Attracting FDI
 - Enhancing trade
- International partners play an important role

Lessons from ASEAN: Regional Economic Integration



ASEAN total merchandise trade in 2016 stood at **US\$2.2 trillion**, with intra-ASEAN trade comprising the largest share at almost **24%**.

Evolution of ASEAN total merchandise trade (US\$ billion)



Source: ASEANstats (2017)

Lessons from ASEAN: Openness to trade and FDI

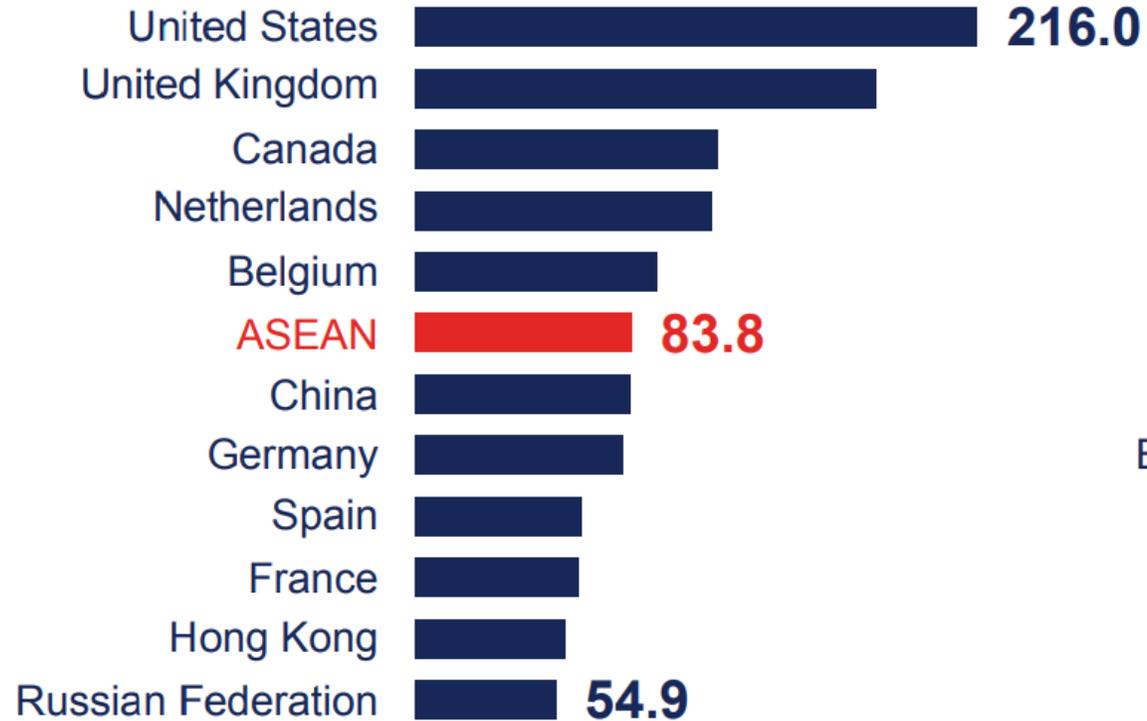
- Singapore:
 - Pro-foreign investment policies and drive for exports
- Thailand:
 - Japanese auto manufacturers shifted their production to Thailand after the yen surged following the Plaza Accord (1985)
 - Thai government liberalized auto industry, e.g. deregulation of Local Content Requirement regulation in 2000

Relevance for Oman 2040:

- Attracting qualitative and high value added investments in the various economic sectors
- Establishing clear regulations for foreign investments, consistent with global standards
- Being more open to investors for encouraging more long-term investments

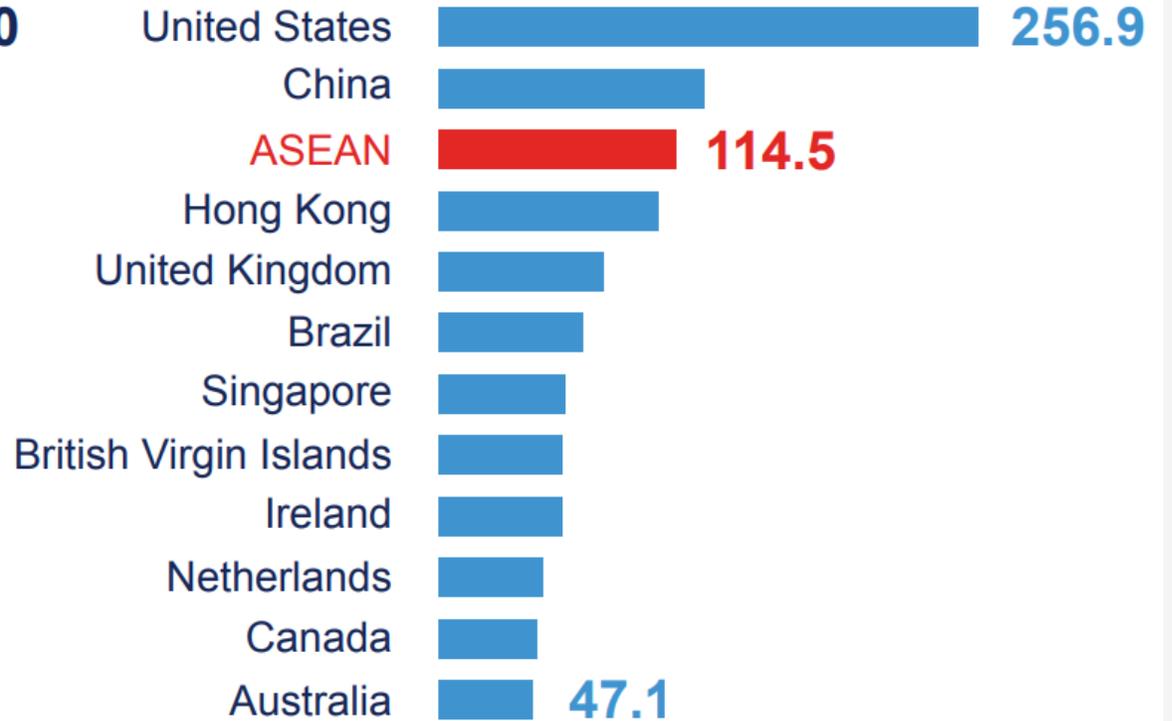
2007 FOREIGN DIRECT INVESTMENT (FDI)

USD Billion



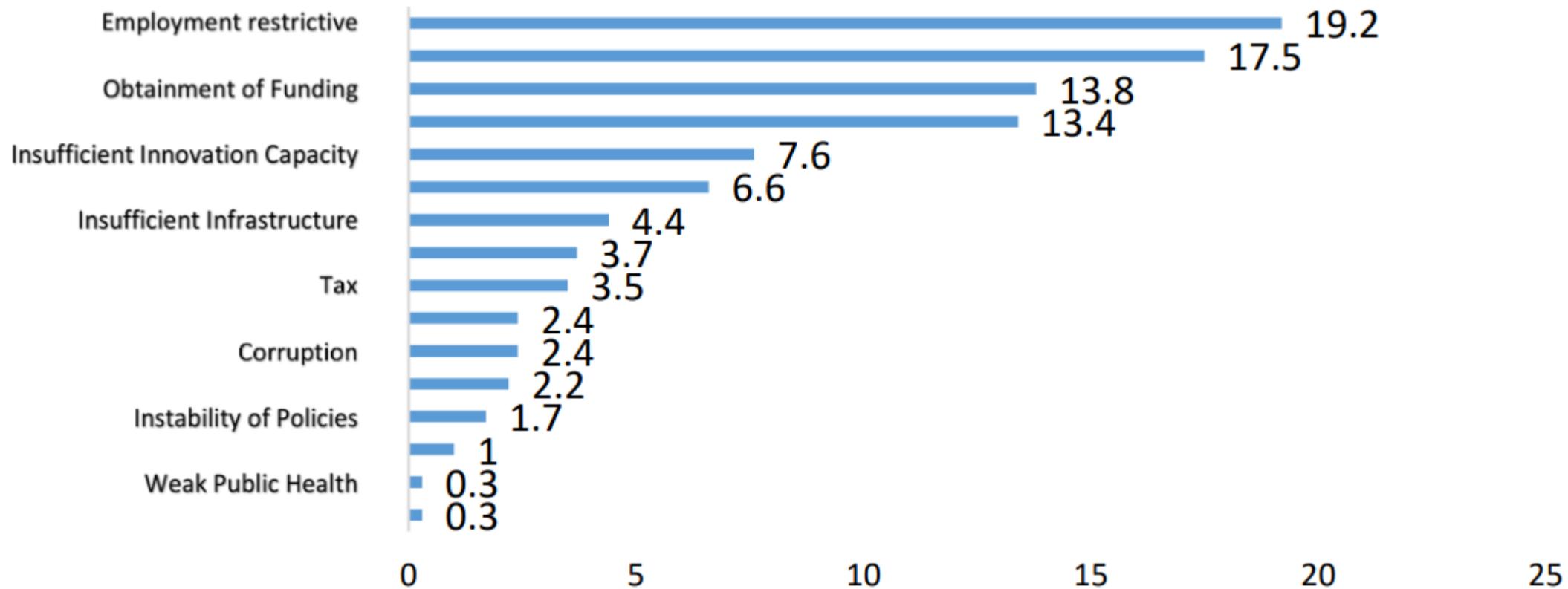
2017 FOREIGN DIRECT INVESTMENT (FDI)

USD Billion

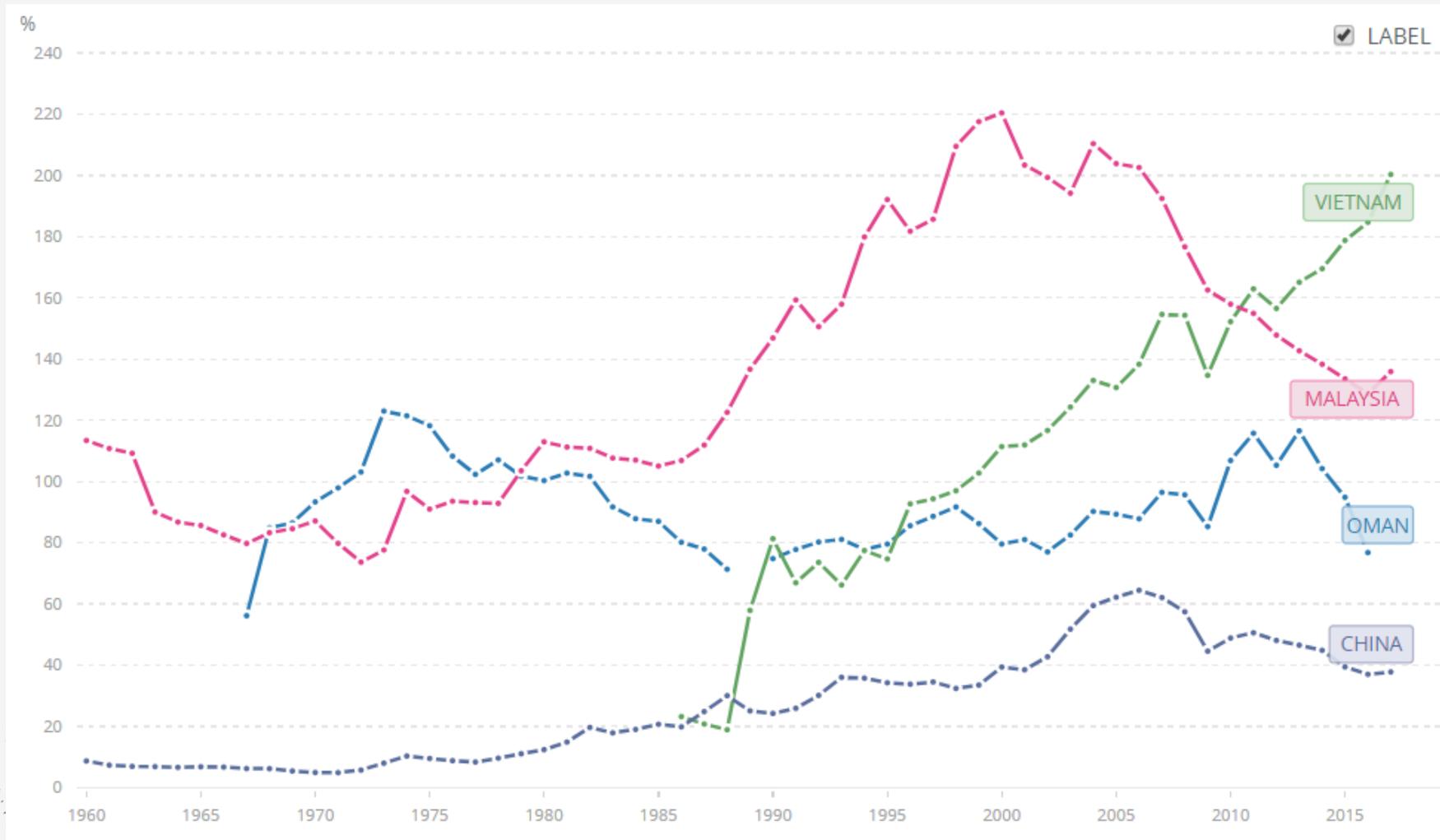


Source: UOB (2018)

Figure (12): Main Obstacles to Investment in the Sultanate of Oman



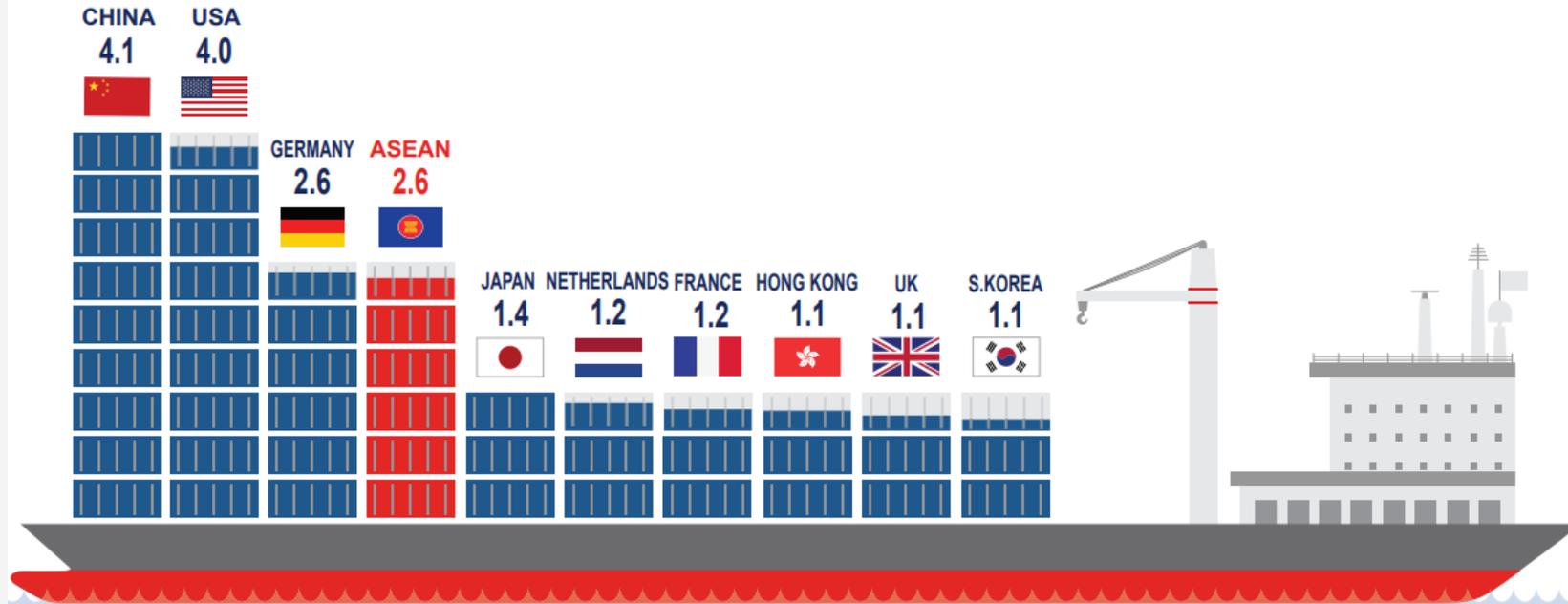
Trade (% of GDP)



Source: World Bank (2018)

2017 TOTAL TRADE: TOP 10 RANKING IN THE WORLD

USD Trillion



INTRA-ASEAN TRADE

Intra-ASEAN trade increased by 47% to USD 543 billion in 2017 from USD 369 billion in 2007.



ASEAN TRADE WITH UNITED STATES

Share of US in ASEAN's total trade fell to 9.9% in 2017 from 11.7% in 2007.



ASEAN TRADE WITH THE WORLD

ASEAN's total trade with the world soared 61% to USD 2.6 trillion in 2017 from USD 1.6 trillion in 2007.



ASEAN TRADE WITH CHINA

Share of China in ASEAN's total trade jumped to 18.7% in 2017 from 12.5% in 2007.

Source: UOB (2018)

Oman 2040 goal: Tourism

To attract more international tourism and promote growth in the tourism sector

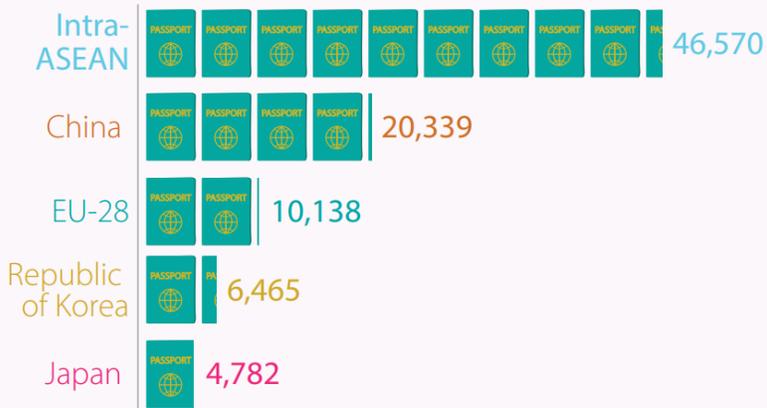
Tourism in ASEAN

134 million arrivals in 2017

ASEAN Tourist Arrivals was **9.5%** of World Tourist Arrivals** in 2017



Major ASEAN Tourist Arrival Sources, 2016 ('000 persons)

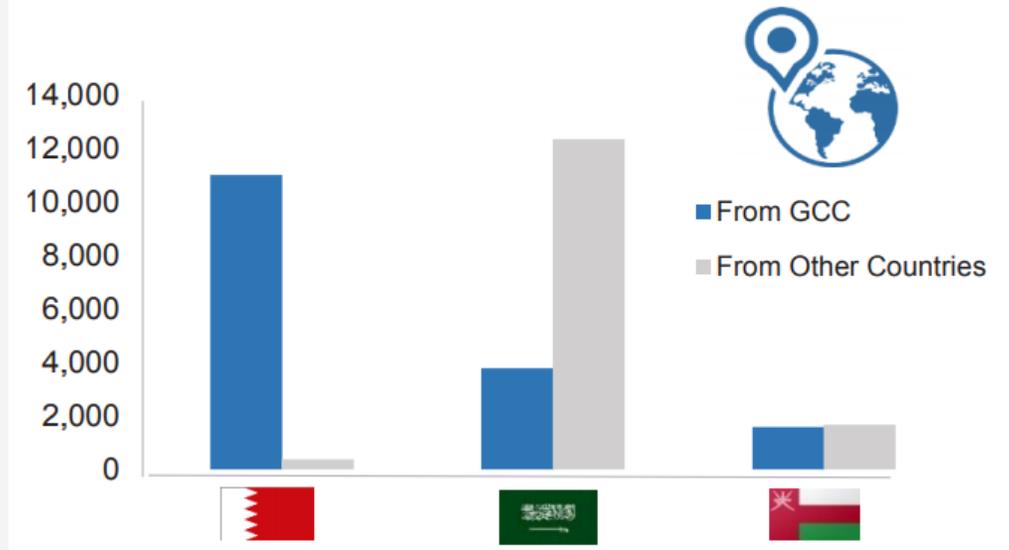


Source: ASEANstats (2018)

Tourism in GCC

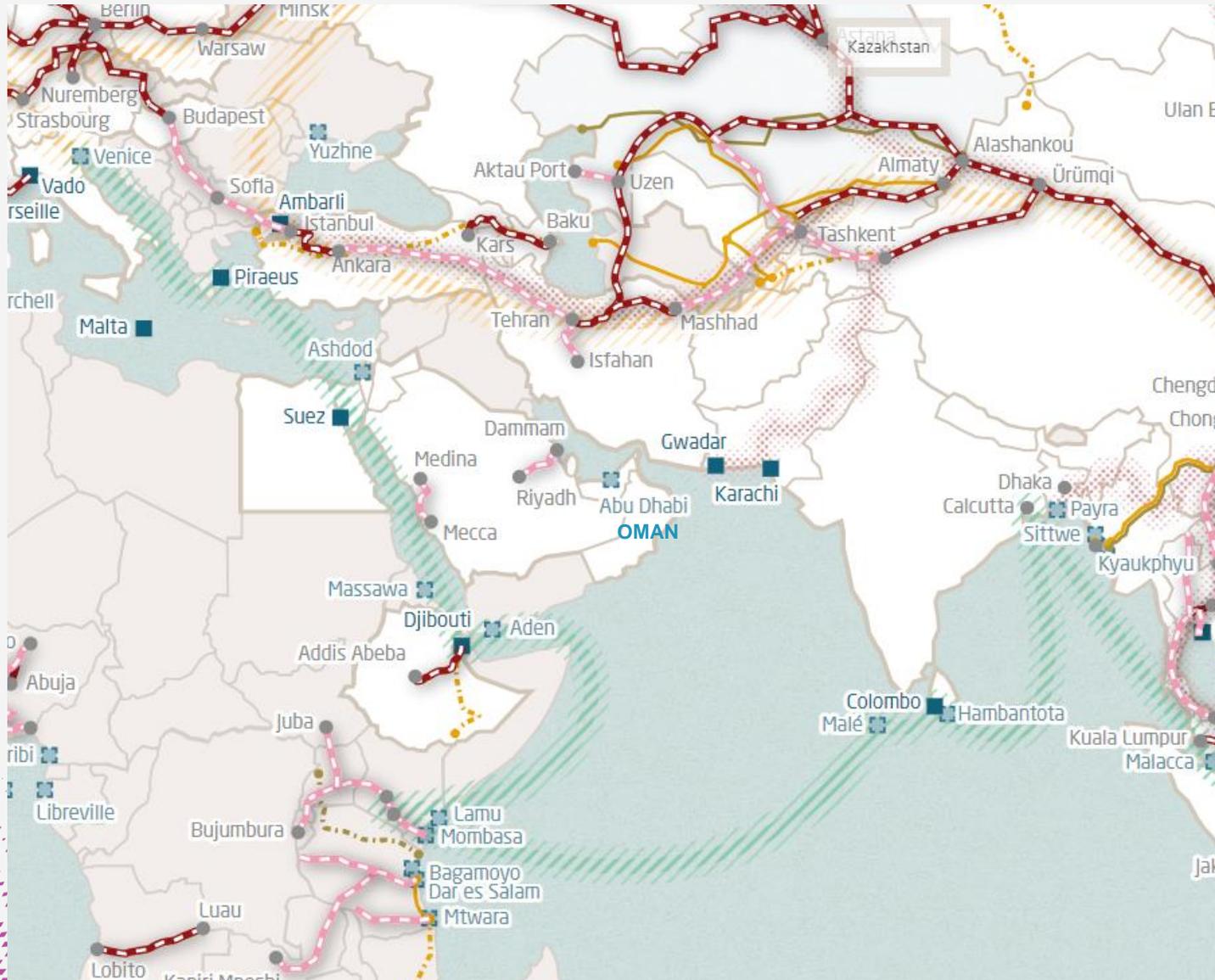
Estimated 55 million arrivals in 2018

Figure 2: Distribution of inbound tourists to the GCC according to destination coming from in 2017



Source: GCC-Stat (2018)

Opportunities for Oman: Belt and Road Initiative (BRI)



		Existing	Planned
	Railroads		
	Oil pipelines		
	Gas pipelines		
	Ports		
	Silk Road Economic Belt		
	Maritime Silk Road		
	Economic Corridor		
	AIIB member states		

Source: Mercator Institute for China Studies