

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Singapore, a small nation with poor natural resources, has been rapidly developing since its independence in 1965 from a low-income to a high-income country. Singapore has been advancing its economy through the export-led industry, targeting their foreign-direct investment, and giving them tax incentives and grants to increase the operations of foreign businesses in the country<sup>1</sup>. This openness makes Singapore a hub country for many foreign companies. Their poor natural resources also deterred them from taking advantage of the employment creation or people's creativity to further their economic development. Singapore provides ease in managing a business that makes it one of the factors to their fast growth, putting them in the higher rank of GDP growth.

The essence of the free-market economy embraced by Singapore is to give freedom to the citizens of a country and manifest their full potential in doing business with government interference. The application of a free-market economy means providing space for people to choose whatever works they want to do and allowing them to pursue their interests, making profits as a part of human nature. The role of the government is limited to security, property rights, public interest protection, budgeting, and planning. Property rights are the legal ownership of resources that individuals or companies can own, ruled in the laws that give the

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<sup>1</sup> Winston T.H KOH "Singapore 's Transition to Innovation-based Economic Growth: Infrastructure, Institutions and Government's Role." *R&D Management* 36, no 2. (March, 2006): 143-160. <https://doi.org/10.1111/j.1467-9310.2006.00422.x>. (Accessed February 27, 2021)

liberty for the owner to hold, rent, sell, or transfer the property. Singapore is ranked third in the world with a score of 8.48, considered an advanced economy with a high-income country by the IMF and World Bank. The number of trade freedoms in Singapore reached 95 in the score, which means there is a higher absence of trade barriers for both tariffs and non-tariff. The lack of obstacles created an opportunity for its citizens as there are no quota, price, regulatory, customs, and direct government restrictions.

While, among Southeast Asia countries, Singapore is ranked number 1 as the country with the most accessible business operation management, that's what makes many foreign businesses decide to open their company in Singapore, furthered by the CECA signed by Singapore in 2005<sup>2</sup>. Foreign companies in a country may bring many advantages, such as providing job opportunities for the locals. Most companies hire locals rather than get them from their home country to reduce costs. The locals can taste products like those in other countries where the origins are because foreign companies usually have standards that apply to every other branch. Singapore's openness to foreign investors made setting up business straightforward.

Singapore's trade policy's primary goal is to protect its economic interests by promoting a free and open international trading environment. As a country that accepts foreign investors, Singapore has participated in many trade agreements, one in the US. The relations between Singapore and the US started back in 2004 where they developed the US-Singapore Free Trade Agreements (FTA). The agreements

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<sup>2</sup> Warta Ekonomi. "Singapura Adalah Negara Paling Ramah untuk Bisnis, Tertarik Buka Bisnis di Sana?" <https://www.wartaekonomi.co.id/read200161/singapura-adalah-negara-paling-ramah-untuk-bisnis-tertarik-buka-bisnis-di-sana>. (Accessed February 27, 2021)

surged from the Clinton Administration to enhance the US's competitiveness to compete in Asia's market better and rapidly increased Singapore's growth by incorporating many foreign businesses in the market without costs. The Act implemented through the FTA includes removing all tariffs for all trades, covering the services, and protecting intellectual property. The Global Financial Crisis, which sources from the housing market and investment-driven countries, impacted many other countries that implemented the same policy regarding loans and interest rates such as US, UK, Spain, and Ireland<sup>3</sup>. Aggravated by globalizations that link many banks and investors all around the world. With global debt reaching \$72 trillion added with corporate debt of \$66 trillion, therefore several countries suffer more than others such as China, Turkey, Chile, and Vietnam<sup>4</sup>. Each household experienced decrease and increase in GDP growth as seen on the chart below:

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<sup>3</sup> “How Secure Is the Global Financial System a Decade after the Crisis?” *McKinsey & Company*, McKinsey & Company, (September 13, 2018), [www.mckinsey.com/industries/financial-services/our-insights/how-secure-is-the-global-financial-system-a-decade-after-the-crisis](http://www.mckinsey.com/industries/financial-services/our-insights/how-secure-is-the-global-financial-system-a-decade-after-the-crisis). (Accessed September 20, 2021)

<sup>4</sup> McKinsey, “Global Financial after Crisis”

While households in hard-hit countries have deleveraged, household debt has continued to grow in other advanced economies.

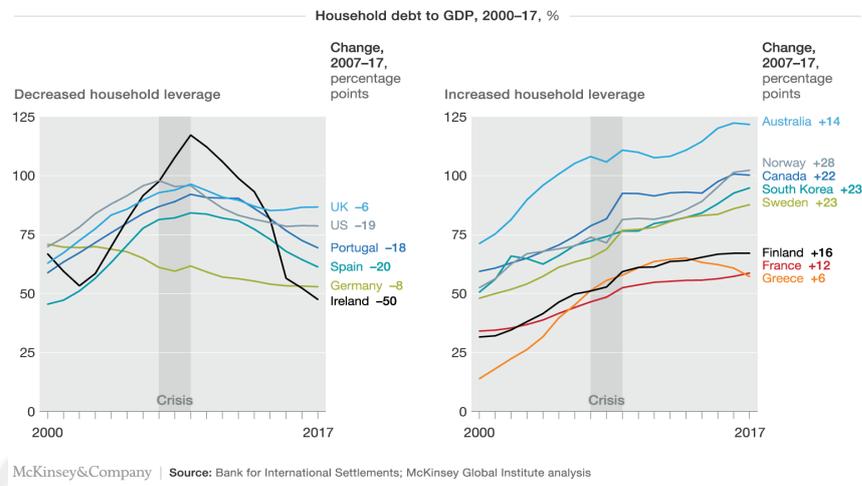


Figure 1.1 Household Debt to GDP 2000-2017<sup>5</sup>

By far, Ireland experienced the highest decrease in GDP's debt, and Norway had the highest increase in GDP. The financial crisis taught the countries to increase their banking assets domestically rather than in foreign banking. Due to the crisis, many banks had to close down their business with foreign investments. Banks and corporations restructured their sources of income in variety through the bond markets.

Singapore became the first country in East Asian countries to fall into recession. Many working Singapore citizens invested in American investment companies hoping for retirement savings. Also supported and promoted by the government to invest for savings. On the contrary, the invested money was affected and incurred losses due to the economic crisis. Taking all things together, almost

<sup>5</sup> McKinsey & Company “How Secure Is the Global Financial System a Decade after the Crisis?” *McKinsey Global Institute* (September 13, 2018) <https://www.mckinsey.com/industries/financial-services/our-insights/how-secure-is-the-global-financial-system-a-decade-after-the-crisis> (Accessed September 1, 2021)

10,000 individuals in Singapore lose more than S\$500 million (\$338 million) because of the breakdown of Lehman Brothers Property Inc. However, the episode left many financially scarred, politically stirred in a city-state where fights are uncommon, and road social events of at least five individuals require a grant. As a follower of the Lehman Brothers, Singapore's biggest bank, DBS, sold its products and became one of the banks that caused the most losses for the citizens. During the recession period, the government implemented several policies such as the Resilience Package and, therefore, managed to pass the awful period of the Singapore economy.

The crisis started in the US when mortgages became an investment between the bank and hedge funds. The low-interest rates made people unable to buy a house then enabled, thus making house prices rise. However, after the interest rate came back up, they were again unable to pay the taxes. The house prices soared, then decreased, and were incompatible with the mortgage payment value. One of the big financial players, Lehman Brothers, who was deemed too big to fall, eventually fell victim to the economic crisis. Lehman Brothers has their group overseas, such as Hong Kong and Singapore, called Lehman Minibonds. Since the early 00s, the world has faced an economic crisis with its highest recession in 2008. The financial crisis suddenly led to millions of people falling into poverty and made them lose their homes. The younger generation's future is foreseen as shaded as their buying capability will remain low due to the more significant social gap between the wealthy and poor.

## **1.2 Research Questions**

According to the information given previously, Singapore has been through an economic crisis, and it's a wonder how fast they recover through the recession.

Therefore, this research suggests the following research questions:

1. How has the GFC impacted Singapore's economy?
2. How did the government of Singapore manage the GFC in the country and return their economic condition?

## **1.3 Research Objectives**

Following the research questions written before, the objectives of this research are:

1. To explain the causes and connection of the GFC to Singapore as the first in East Asia countries to fall into recession towards the impact of the GFC against Singapore's economy, including how it affected the country's economic growth, trade activities, and unemployment rate.
2. To analyze the actions taken by the government and other involved parties, including the policies implemented and their effectiveness, then how those actions managed to bring back the country's economic condition.

This research will explain the GFC and Singapore's relations and their impacts with more focus on the economic perspectives.

#### **1.4 Significance of Research**

This research aims to provide further information for people who shared the same interest on how Singapore overcame the GFC through the country's actions and policies. Hopefully, this research could be helpful and provide insights for people who want to learn more regarding the effect of the Global Financial Crisis, especially in Singapore. The readers may analyze this thesis and use it to compare how other countries also managed to overcome the financial crisis as it affects the majority of countries in the world. And lastly, I hope this research could be helpful for anyone who needs sources and secondary data that is in accordance with the area of the topic discussed.

#### **1.5 Structure of Writing**

The first chapter of this thesis will provide information regarding the foundation in writing the thesis, including the background of the topic, the research questions that will be answered through this thesis, and the objectives of this research.

The second chapter of this thesis will be divided into two parts; literature review and the concepts in accordance with the topic discussed. The literature review provided the basics in analyzing the research questions. The theory used is neoliberalism, and the concepts are economic crisis and economic growth that are significant with the topic.

The third chapter of this thesis provides the methods used to explain this research, including the research approach, research method, data collection technique, and data analysis technique.

The fourth chapter of this thesis provides the answers to the research questions from the systematic data collected, according to the theory and concepts used that are significant with the topic.

The fifth chapter of this thesis will provide the conclusion from all the research data and analysis, including the research results.

