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# RSIS COMMENTARIES

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## **Singapore and the Middle East: Launching the Second Wave**

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*Singapore kicked off 2008 with what appears to be the second wave of its Middle East diplomacy. While there are clearly opportunities for Singapore's public and private sectors in the Middle East, there is also scope for joint forays into third countries.*

SENIOR MINISTER Goh Chok Tong's January visit to Qatar and Dubai can be seen as part of Singapore's second wave of economic diplomacy with the Middle East. This new push also involved a separate visit by Minister Mentor Lee Kuan Yew, who went earlier to Saudi Arabia. Singapore's first wave into the Middle East, launched by Mr Goh in 2004, was a strategic shift as it plugged a major gap in the Republic's diplomatic consciousness. Until then, the Middle East was never high on Singapore's foreign policy priorities.

### **Signal from the Second Wave**

Interestingly, the signal from this second diplomatic thrust is one that has been obvious from the start, even though not explicitly stated. Both visits by Mr Goh and Mr Lee continued the exercise in building bridges, not just between Singapore and the Gulf but also between Asia and the Middle East to widen the Republic's economic space.

Mr Goh was in Qatar and Dubai from 28 January to 3 February 2008. The key achievement from his latest trips is the growing strategic partnership with the Arabs for joint investment or collaboration in third countries. A clear example is the possibility of Arab participation in Singapore's eco-city project in China.

Several days before Mr Goh, Minister Mentor Lee was already in Saudi Arabia from 17 to 23 January 2008, during which he received a briefing on the kingdom's major bid to further develop economically and diversify away from oil. Encapsulating this Saudi drive is the emerging King Abdullah Economic City (KAEC), for which the Saudis were eager to learn from Singapore's experience. Mr Lee was apparently detailed and convincing as he sought to explain to the Saudis the story of Singapore's success. Saudi Arabia is already Singapore's largest trading partner in the Middle East. His visit

highlighted the strengthening bilateral trade relations between the two countries.

The city will be a world-class metropolis consisting of six economic clusters including a seaport, an industrial zone, a financial island as well as resorts. Home to Islam's two holiest cities Mecca and Medina, Saudi Arabia is also the world's biggest oil producer. The KAEC will be a major opportunity for Singapore's private and public sectors to be engaged aggressively in projects in the kingdom as a stepping stone into other Middle Eastern countries. Singapore's involvement in the development of the new city, as well as the visits by Mr Goh and Mr Lee will enhance the Republic's incipient presence in the emerging region. Indeed, Singapore and the Gulf are well-poised to rebuild the Asian-Middle East bridge of the past.

### **Singapore-Middle East: Growing Cooperation**

Between 2004 and 2006, the total trade volume between Singapore and the Middle East jumped from S\$32.2 billion (US\$20.9 billion) to S\$47.4 billion (US\$30.8 billion), an increase of 48 per cent. Investors, students and others seeking anything from medical treatment to tracking the journeys undertaken by their forebears, are now shifting their gaze to Asia in the aftermath of the September 11 attacks on the United States.

Singapore's serious engagement with the Middle East began in 2004 when Senior Minister Goh made a series of high-level official visits to the region. In June 2005, Singapore also hosted the inaugural Asia-Middle East Dialogue (AMED), providing an unprecedented platform for countries from the two regions to come together to discuss issues and areas of mutual concern. As a follow up, the Singapore Business Federation launched the Middle East Business Group in March 2007 to foster between business chambers and companies from both sides.

Despite years of tension and the ravages of war, some of the Middle Eastern economies are witnessing a boom and an unprecedented increase in revenues because of sustained oil prices over the last few years. This is especially so for the Gulf Cooperation Council states (GCC), comprising Saudi Arabia, the United Arab Emirates, Bahrain, Qatar, Kuwait and Oman. The Gulf states, together with Iran, account for 84% of known recoverable oil reserves. Reports say that for the past five years, the GCC's collective annual current-account surplus had risen from US\$25bn to over US\$200bn. Official reserves had doubled from US\$51bn in 2002 to US\$98bn in 2007, and were expected to reach US\$100bn by 2008.

### **Rise of new business elite**

One should also take note of the rise of a new business elite in the Gulf states. Members of this generation have studied in well-known Western universities and have good business knowledge. This new elite comprises youths who are equipped with capital, knowledge and ambition, and are eager to move away from the energy business. More of their investments may find their way into Asia, especially China, India, Singapore and Malaysia.

It is possible that these young businessmen may be more decisive in taking charge of their own wealth and in steering the economic development of their respective countries. Current geopolitical developments are also in favour of such a shift. Middle Eastern governments see the need for policies to support these private sector leaders to embark into new businesses.

### **Why Singapore is an ideal partner**

People in the Middle East are aware of how Singapore has thrived despite being small in size and deprived of natural resources. Some of the smaller Middle East countries see Singapore as a model for them, even as Senior Minister Goh sees Singapore itself learning a few lessons from them. Dubai's

three Palm Islands – the world’s largest man-made islands -- out of which has emerged its tourism industry, has been cited as a fine example of human ingenuity.

Today, Singapore is seen as more than a financial centre; it can be an important part of the bridge between Asia and the Middle East that was once known as the Silk Road or Silk Route. Indeed, the political, economic and social trends are already pointing to a revival of the old Silk Route.

Singapore can benefit tremendously from Middle Eastern countries by concluding free trade agreements with the GCC states. Such agreements will enable Singaporean companies to have privileges and priorities in these countries. Singaporean entrepreneurs could also join hands with Middle Eastern partners to jointly exploit the growing opportunities in the remarkable growth of China and India. Singapore’s state-of-the-art services and urban infrastructure, combined with its efficient regulatory environment and low taxes, would attract Middle Eastern companies looking for a base to house their regional headquarters.

### **Sharing, not competing**

Yet, nothing is for sure, inspite of Singapore’s unique position to play bridge-builder between the Middle East and Asia. Another international financial crisis could hurt the journey and consequently, all Asian efforts for progress would be put on hold. The rise of a new Asian competitor may disrupt the position that Singapore has established for itself. Asia is growing and many states would want to attempt the same journey. Singapore can complement rather than end up competing with them. As an already developed global city, Singapore needs new frontiers for its next phase of growth. The Middle East is where the next action must be.

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