



Munich Personal RePEc Archive

Singapore economy:An overview

Menon, Sudha Venu

ICFAI Business School, Ahmedabad

30 May 2007

Online at <https://mpra.ub.uni-muenchen.de/4667/>

MPRA Paper No. 4667, posted 31 Aug 2007 UTC

SINGAPORE ECONOMY: AN OVERVIEW

Sudha Menon

The spectacular growth of economies in Asia over the past few years has amazed the economics profession and has evoked a torrent of books and articles attempting to explain the phenomenon. Since 1960, Asia, the largest and most populous of the continents has become richer faster than any other region of the world. Asian growth, like that of the Soviet Union in its high-growth era seems to be driven by extraordinary growth in inputs like labor and capital rather than by gains in efficiency. Of course, this growth has not occurred at the same pace all over the continent. The eastern countries turned in a superior performance, although variations in achievement can be observed here too¹. Singapore plays a leading role in changing the destiny of post colonial countries in Asian region, by heralding the unique success path of economic growth, industrial competitiveness coupled with political stability and transparency. Even though the country was constrained by geographical limitations and a vast natural resource base, the city- state was able to lay the foundations of economic prosperity and diversity through effective utilization of its entrepot status. When other Asian countries faced a chequered history of economic under development, political instability and social unrest, Singapore attempted a brave step towards liberalization, international trade and capitalistic growth strategy which ultimately made the country a 'brand' among other countries. Now Singapore serves as a regional headquarters for more than 3000 multinational companies and has world class financial and service sectors and above all highly efficient physical infrastructure. The country consistently ranks high among 'most attractive countries for international business' and has achieved a per capita GDP level comparable to levels of developed western nations².

Against this context, this article attempts to provide a brief overview of Singapore, its economic history, macro economic trends and social and demographic profile. The main objective of the article is to present the growth and development of a small city state into the most vibrant and thriving economic destination across the world.

Growth of a City-State

Singapore is an island nation, situated in Southern tip of Malay Peninsula. It is the smallest country in South East Asia and one of the few remaining city states of the world. The name *Singapura* is derived from the Malay words *singa* (lion) and *pura* (city), which in turn is from the Sanskrit *siṃha* and *pura*. According to the Malay Annals, this name

¹ Sudha Menon, *Asia's Economic Growth: Trends and Patterns*, 2007.

² www.foreigntradeexchange.com/countries/singapore

was given by a 14th century Sumatran Malay prince named Sang Nila Utama, who, on alighting the island after a thunderstorm, renamed it *Singapura* after spotting an auspicious beast identified as a lion by his chief minister who was on board his ship³. Historically, Singapore's economy was based primarily on its role as an entrepot for neighboring countries due to its strategic geographic location at the entrance to the Straits of Malacca. It did not have minerals or other primary products of its own to export, but it served a major economic function by processing and transshipping the goods of nearby lands. Its most significant natural resource is a deep water harbor. As a result of these circumstances, Singapore became highly active in shipbuilding and repair, tin smelting, and rubber and copra milling⁴. Although Singapore at first served only as a center for trade and transshipment, by the early twentieth century, primary goods, mainly rubber and tin from the neighboring Malay Peninsula, were being imported for processing. Singapore also became a regional center for the distribution of European manufactured goods. After World War I, when the British established a naval base on the island, Singapore became a key element of the British Commonwealth of Nations military defense east of India, thus adding the naval support industry to the island's economy⁵. The British used the position as a tactical trading outpost along the spice route. Occupied by the Japanese Empire during World War II, it reverted to British rule in 1945⁶.

In the period immediately after World War II, Singapore faced enormous problems, including labor and social unrest, a decaying, war-ravaged infrastructure, inadequate housing and community facilities, a slow economic growth rate, low wages, and high unemployment made worse by a rapidly expanding population. As late as 1959, the unemployment rate was estimated at 13.5 percent. The struggle for survival in the postwar period deeply affected the economic decision making of Singapore's first generation leaders⁷. Mounting political pressure for independence from Britain culminated in 1963 in the merger of Malaya, Singapore, and the British northern Borneo territories of Sabah and Sarawak into the new nation of Malaysia. A combination of political and ethnic differences between Singapore and the national government, however, led in 1965 to Singapore's separation from Malaysia and establishment as an independent nation⁸.

Initially it is expected that geographical separation from Malaysia will ultimately hinder the economic prospects of Singapore. The country faced severe unemployment, reduced GDP and an huge increase in budgetary deficit. However, under the effective leadership

³ www.wikipedia.org/singapore

⁴ www.nationsencyclopedia.com/Asia-and-Oceania/Singapore-ECONOMY.html

⁵ www.countrystudies.us/singapore/28.htm

⁶ www.wikipedia.org/singapore

⁷ www.countrystudies.us/singapore/28.htm

⁸ *ibid.*

of Lee Kuan Yew, Singapore was able to curb unemployment problem, raise standard of living of people and provide housing facility for the entire people. The country's economic infrastructure was developed, the threat of racial tension was curbed, and an independent national defence system, centering around compulsory male military service, was created.

As a result of the successful policy of promoting industrial base and diversification, Singapore could gain economic predominance in SouthEast Asian region by the end of 1970s. The economy underwent structural change during this period which give rich dividends. Growth was achieved because workers were added to the payroll and provided with better machinery with which to work. Even more remarkable, this growth was accomplished with an outstanding record of price stability. Inflation was kept low by the government's conservative fiscal policies, which included the maintenance of strict control over the money supply.

Government plans during the first half of the 1980s called for realigning industrial activities from traditional labor-intensive, low-wage activities to capital-intensive, high-wage and high-technology activities, notably the electronic industries and oil refining. In 1985, however, Singapore's economy declined for the first time in 20 years. One of the reasons for the decline was high wages, which made Singaporean products less competitive on the world market. Other reasons for the economic downturn included a slumping demand for oil and electronic products and the economic woes of Malaysia, Indonesia, and other important trading partners⁹.

1980s witnessed the growth of this city state economy into a favorite destination of multinational companies through the provision of sustainable manufacturing base, financial facilities and communication network. Banking and financial sector reforms helped the economy to attain significant boom in international banking operations which contributed 25% of the GDP in 80s. Among the top financial destinations in Asia, it ranked 3rd behind Hong Kong and Tokyo. Given Singapore's dependence on the world economy, however, the consequences of declining foreign demand were inevitable. The 1985 recession was the worst in the nation's history. Singapore staggered under a year of negative growth (-1.5 percent), then recovered slightly in 1986 (+1.9 percent). The causes lay both outside and within the country. Externally, worldwide slumps in petroleum-related and marine-related sectors were reflected in reduced demand for Singapore's goods and services and raised the specter of worldwide overcapacity in shipbuilding and ship repairing. Furthermore, the slowdown in demand for semiconductors and electronics in the United States sharply reduced demand for Singaporean components and parts¹⁰.

However, the growth saga continued even in 1990s even though increased labor costs affected productivity. Naturally Singapore concentrated on export oriented high-technology manufactured goods. In early 90s manufacturing accounted for 30% of the GDP. The electronics industry accounted for the largest share of value-added in manufacturing. Manufacturing was dominated by the production of computer peripherals

⁹ *ibid.*

¹⁰ www.countrystudies.us/singapore/28.htm

and oil processing. Even though the Asian financial crisis affected the entire region, Singapore recovered from it with out much delay. In 2001, a global recession and slump in the technology sector caused the GDP to contract by 2.2%. The Economic Review Committee (ERC), set up in December 2001, recommended several policy changes with a view to revitalising the economy. Singapore has since recovered from the recession, largely due to improvements in the world economy. Since mid-2003, Singapore's economy has recovered rapidly due to a favorable external environment, supportive macroeconomic policies, and continued structural reforms. While near-term prospects are favorable, sustaining robust growth over the medium term will require the country to meet the rising challenges from low-cost regional economies. Singapore economy today has transformed from a third world country to one of the richest economies of the world, a Vibrant Financial Centre, a significant contributor to the International Trade, a major Transportation and Logistics Hub, a Tech Savvy nation, greatly favored Tourist Destination, a Global Leader in Biomedical research, the Leading Investment Destination, a Strategic Info-communications Hub and a Knowledge economy.

Socio Economic and Demographic trends

Singapore is the second-most densely populated country in the world, not including Macau and Hong Kong, which are parts of the People's Republic of China. While the total population living in Singapore as of June 2006 is about 4.5 million, official demographic breakdowns and statistical analysis are only released for the 3.6 million who are Singaporean citizens and permanent residents. Singapore faces severe aging problem which ultimately became a national policy relevant issue affecting the overall productivity. Singapore is ranked 25th in the Human Development Report, with an HDI value of 0.907. Hong Kong, China (SAR) ranks first in the region, with a value of 0.916. The HPI-1 value [Human Poverty Index], ranks 6th among 103 developing countries for which the index has been calculated. Singapore is also a multi-religious country. Around 51% of Singaporeans practice Buddhism and Taoism. About 15%, mostly Chinese and Indians, practice Christianity. Muslims constitute 16%, of whom Malays account just over 13%. Smaller minorities practise Sikhism, Hinduism, and others, according to the 2000 census. About 15% of the population have no religious affiliation¹¹.

Macro Economic Scenario

Singapore is a highly developed and successful free market economy in which the state plays a minimal role. It has an open business environment, relatively corruption-free and transparent, stable prices, and one of the highest per capita gross domestic products (GDP) in the world. In its recent budget speech government announced that GDP growth

¹¹www.wikipedia.org

rate for the whole year of 2006 was 7.9%, which is higher than the expected target of 7.7%.The following table presents trend of GDP growth in Singapore since 1980.

Table 1

Year	GDP in million dollars	US dollar exchange
1980	25117	2.14 Singapore Dollars
1985	39,036	2.20
1990	66778	1.81
1995	119470	1.41
2000	159840	1.72
2005	194360	1.64
2007	224412	1.51

Source :IMF Data

The government promotes high levels of savings and investment through a mandatory savings scheme known as the Central Provident Fund, and large portions of its budget are expended extensively in education and technology, with the former having a current rate as of 2005 21%, compared to the current budget as of 2005 in the United States of 4%. It also owns Temasek-linked companies (TLCs, companies that are linked to the government's investment arm) - particularly in manufacturing - that operate as commercial entities and account for 60% of GDP. As Singapore looks to a future increasingly marked by globalization, the country is positioning itself as the region's financial and high-tech centre¹².Singapore's economic strategy proved a success, producing real growth that averaged 8.0% from 1960 to 1999. The economy picked up in 1999 after the regional financial crisis, with a growth rate of 5.4%, followed by 9.9% for 2000. However, the economic slowdown in the United States, Japan and the European Union, as well as the worldwide electronics slump, had reduced the estimated economic growth in 2001 to a negative 2.0%. The economy expanded by 2.2% the following year, and by 1.1% in 2003 when Singapore was affected by the SARS outbreak. Subsequently, a major turnaround occurred in 2004 allowed it to make a significant recovery of 8.3% growth in Singapore, although the actual growth fell short of the target growth for the

¹² www.wikipedia.org/singapore

year more than half with only 2.5%. In 2005, economic growth was 6.4% while there was 7.9% growth in Year 2006¹³.

When we take sector wise growth performance, it is clear that manufacturing expanded by 9.3% in 2005, led by the transport engineering, biomedical manufacturing, and electronics sub-sectors. High global shipping freight rates, increased oil exploration inspired by high oil prices, and the damage caused by Hurricane Katrina to oil rigs in the Gulf of Mexico in August boosted orders for Singapore's offshore and marine engineering industry, which is a major player in ship conversion and oil-rig building. Electronics benefited in the fourth quarter from the end of the global electronics inventory correction around midyear, as orders for electronics products picked up. Construction declined in 2005 for the seventh consecutive year, but at a slower pace (1.1%) than in 2004. A gradual diminishing of oversupply in the property market, as well as government approval for development of two large casino-resorts, lifted market sentiment¹⁴. The services sector grew by 5.8%, underpinned by the strong performance of wholesale and retail trade and of financial services. The former was supported by buoyant regional trade and the recovery in domestic consumption, the latter by expansion of asset management and capital market activities. These activities in turn were fueled by increased international investment in Asian equities, greater volatility in the foreign exchange market, and higher turnover in the domestic stock market¹⁵. The following table indicates macro economic trends in the economy.

Table 2
Major macro economic indicators 2004-2007

Item	2004	2005	2006	2007
GDP growth	8.4	4.1	4.5	4.4
GDI/GDP	18.3	21.7	23.0	24.1
Inflation	1.7	1.4	1.2	1.2
Money supply growth	6.2	6.0	6.0	6.0
Fiscal balance/GDP	3.4	3.3	3.2	3.1
Export growth	24.2	8.0	8.0	8.0
Import growth	27.1	7.6	8.5	8.5

¹³ *ibid.*

¹⁴ www.adb.org/Documents/books/ADO/2006/sin.asp

¹⁵ *ibid.*

Current account/GDP	26.1	26.0	25.7	26.2
---------------------	------	------	------	------

Source: Ministry of Finance, Government of Singapore. Official website of Singapore.

The latest budget of 2007 also indicates that Singapore economy has benefited from international service sector boom and made a sustainable macro economic growth statistics. An unprecedented 173,300 jobs were created last year, with more than half of these taken up by the local workforce. The unemployment rate went down to 2.7%. Workers enjoyed good wage increases and better bonuses, with average wages rising by 3.2%

Singapore is undergoing significant structural adjustment, against a background of accelerated globalization and increased competition from other regional economies. In response to these challenges, the Government has undertaken a range of structural reforms to diversify the economy and to enhance its competitiveness. Indeed, prospects over the medium term largely depend on the effectiveness of these changes.

References

1. www.adb.org/Singapore
2. www.worldbank.org
3. www.wikipedia.org
4. Official website of Singapore
5. www.countrystudies.com/singapore
6. Sudha Menon, Asia's Economic Growth: Trends and Patterns, 2007.
7. www.foreigntradeexchange.com/countries/singapore

This document was created with Win2PDF available at <http://www.win2pdf.com>.
The unregistered version of Win2PDF is for evaluation or non-commercial use only.
This page will not be added after purchasing Win2PDF.