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SINGAPORE ECONOMY: THE WAY AHEAD

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The ideology of globalization and its practice based on neo-liberal paradigm has played a vital role in re-arranging the architecture of global economic and political order. The integration of domestic economies into world economy, accumulation of foreign capital, removal of trade barriers communication revolution etc. are treated by nation state as beacon lights to move towards the paths of growth, prosperity and human development. However, the development of the free market associated with globalization has marginalized many economies in terms of trade, especially post-colonial countries of Asia and Africa. As a result, inequality between the developed and developing world is wider than ever before. The phenomenon of globalization and the new economic order spear headed by IMF-World Bank –WTO combine has adversely affected the Afro-Asian and Latin American economies, particularly integration of these economies into world market weakened their capacities to protect their people's interest through independent programmes.

The main challenge, nation states has to face in this era of global integration is how to sustain economic growth and prosperity without compromising on national priorities, strategies and values. Capability and efficiency of governance in each country is tested on the basis of its commitment to equity and social justice on one hand and international economic competitiveness on the other. When we consider the economic success of Asian countries in this regard, the result is not promising. Economic growth in most Asian countries has been a story of ups and downs, stability and stagnation. Most of the economies in this region have achieved moderate to rapid growth over medium to short periods of three to ten years, yet maintaining positive growth rates over longer periods. Both income per capita and labor productivity in most sectors have showed convergence towards advanced economies. At the same time, there exist wide gap between rich and poor people, especially in other developing countries. However there are exceptions also. Since its inception as an independent country Singapore showed a sustained growth rate with a high standard of living parallel to developed countries.

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 nations. Though the economy was affected by Asian financial crisis, the country's sound macroeconomic fundamentals, as well as the government's efforts to cut business costs, resulted in economic rebound in 1999 and 2000. However, from 2001 to 2003, the economy was hard hit again by the global recession as well as by the slump in the technology sector. The outbreak of SARS in 2003 further slammed the economy by substantially reducing tourism and consumer spending. 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.

Against this context, this article attempts to analyze the growth prospects of Singapore economy in the present era of globalization, competition and multilateral trade agreements. Section one attempt to analyze competition from India China and Malaysia and the recent strategies adopted by Singapore to address the challenge. Section two examines the current economic overview of Singapore. Section three evaluates the priority areas of Singapore –investment in education, R&D, addressing ageing problem, rowing *high trust services* [legal services, financial services, maritime and aviation], IT Connectivity and energy hub, increase in international trade and branding Singapore as a global city.

Section One

Singapore: Opportunities and Challenges

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. Singapore's strategic location on major sea lanes and industrious population has given the country an economic importance in Southeast Asia disproportionate to its small size. After independence in 1965, Singapore was faced with a lack of physical resources and a small domestic market. In response, the Singapore Government adopted a pro-business, pro-foreign investment, export-oriented economic policy framework, combined with state-directed investments in strategic government-owned corporations. Singapore's total trade in 2003 amounted to \$279 billion, an increase of 10% from 2002. Despite its small size, Singapore is the 14th-largest trading partner of the United States. In 2003, Singapore's imports totaled \$131 billion, and exports totaled \$148 billion. Malaysia was Singapore's main import source, as well as its largest export market, absorbing 16% of Singapore's exports, with the United States falling behind to 13%, from 15% in 2002.

In his recent budget speech, finance minister of Singapore admitted that Singapore is trying hard to make best advantage out of international trade and globalization. Capital, enterprise and investment are concentrated on where government can be trusted, where the workforce is well-educated and skilled, and where the quality of life is high. Since Singapore has the three elements, government is optimistic enough to gain rich dividends out it. Even though Singapore is well placed in the globalizing Asian region, the country faces competition from China and India. Competition from China and India has galvanized ASEAN to accelerate integration and forge a collaborative ASEAN Community by 2015.

India and China initiated global integration process and liberalization of economy in the 90s which ultimately altered the economic prospects of these Asian giants in the entire continent. Over the past 25 years or so, China has averaged real GDP growth of close to 10% a year, and external trade growth of 16% – an astonishing feat, to say the least. In the same period, India has grown at just under 6% a year. But such averages clearly mask many changes over time. And it is important to note that India's trend growth has accelerated steadily from about 4% in the 1960s to the early 1980's, to around 7% to 8% in recent years.

Since both the countries enjoy a vast skilled workforce and cheap labor, multinational companies, especially IT sector giants channelized their investment in these countries. Both countries have suddenly turn business process outsourcing into a globalize proposition. American IT professionals writing software code suddenly find themselves being out-competed by eager Indian graduates of prestigious Indian Institutes of Technology, happy to make one-quarter of the American's pay and delivering much better output. Indian companies have also succeeded to secure a larger share of the global IT market spending. Their software exports share of the overall global market rose from 1.5% in 2001 to 1.9% in 2003. This has affected Singapore IT sector. The emergence of new port facilities in China, India and Malaysia also pose challenge to Singapore's traditional predominant position in international trade. In tourism sector also, Singapore face opposition from other Asian countries. Australia, Malaysia, Thailand and Bangkok were spending heavily for their country promotions as the tourist destinations. Analysts opined that the initiatives and infrastructure investments in tourism facilities made by Singapore in the past few years would pay off well. The cheaper electronics components from China and Taiwan were threatening Singapore's electronics export industry.

Another factor which threatens the growth prospects of Singapore is ageing population and increasing dependency ratio. The number of senior citizens in Singapore is currently 300 thousand and expected to increase by 900 thousand by 2030. Ageing population has serious implications on the growth prospects of the economy since the fall in number of productive people affects overall economy. More over Singapore's total fertility rate (TFR), which measures the number of babies born per woman, fell to a historic low of 1.24 in 2004. It remained at the same level in 2005. To replace it the country would need a TFR of 2.1, or at least two per woman and it is yet to be attained. Current projections show that one-in-five Singaporeans will be over the age of 65 by 2030. Without more new births, the population will shrink. A declining population will diminish economic prospects and vitality, compromise defense capabilities and increase the socio-economic burden for all Singaporeans.

However, with a broad strategy and visionary leadership coupled with efficient administrative system Singapore has already initiated issue specific strategy to deal with each of these challenges. In spite of the stiff competition from regional players like China and India, the Global Competitiveness Report 2005-2006 by the World Economic Forum (WEF) ranked Singapore sixth in its Growth Competitiveness Index (GCI), and fifth in the Business Competitiveness Index (BCI), moving up by five ranks in the index compared to the previous year. Serving as a regional headquarters for more than 3,000

multinational corporations (MNCs), Singapore has world-class financial, business and transport service sectors; a manufacturing sector anchored by electronics, chemicals, and engineering; a stable, honest government, and modern, highly efficient infrastructure. MNCs account for almost 70 percent of manufacturing output, 45 percent of which are electronics components. 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 nations. The world's highest PC penetration among households, the well-networked broadband systems and the high-tech transport system—all symbolize Singapore's economic achievements.

Singapore's strategy to face the challenges mainly focuses on two aspects: embracing globalization and maximizing opportunities for all. As in the words of Singapore Finance Minister¹,
“Our response therefore must be to focus on growth and embrace globalization, but manage its downsides and make it work for everyone. We will do this by maximizing opportunities for all Singaporeans — the opportunities to get a good education, to work or to start a business, to retrain and upgrade, and the opportunity to own a home. We must maximize opportunities for all, but we must also accept that doing so does not result in equal rewards for all. We should never reduce the incentive for Singaporeans to work and to make the most of their skills and talents, so as to get higher reward for themselves. That has to be the basis for our society, for how we keep our economy growing, and for how living standards of Singaporeans will rise over time”.

Government has adopted special strategies to face the challenge of ageing population and widening income gap. The Government has formed a ministerial level committee, the National Population Committee (NPC) to deal with the ageing problem. The NPC steers and guides the development of strategic policies in confronting the population challenge. The NPC has adopted a holistic approach, focusing its efforts in the three key strategies on promoting marriage and parenthood, engaging Overseas Singaporeans and encouraging immigration of suitable foreigners. The NPC was initially supported by a part-time secretariat based in the Ministry of Community Development, Youth and Sports (MCYS). It was housed in MCYS because the focus then was on marriage and parenthood. However, given the complexity and urgency of the issue, it was upgraded to a full-time National Population Secretariat (NPS) in the Prime Minister's Office (PMO) in June 2006. The NPS is responsible for setting policy objectives and coordinating the efforts of the various government agencies involved in the continuum of population-related issues. They have also introduced parenthood package for couples which have shown positive results- there were about 240 more births from January to June 2006 compared to the same period in 2005, and about 400 more births in 2005 compared to 2004. This is a positive reversal which comes after four consecutive years of decline. Government has also increased health care spending substantially. The following sections discuss in details the current economic scenario in Singapore and the specific strategies adopted in recent budget by the government to make Singapore a growth centric, equity centric economic giant in Asian region.

¹ See Budget speech, 2007, Finance Minister of Singapore for more details.

Section Two

Economic Overview: 2006-2007

As the most export-dependent economy in Asia, Singapore's prospects rely heavily on world market conditions, and especially the global electronics cycle. On the assumption of favorable external conditions and a largely accommodative domestic policy environment, the economy is projected to continue its rapid growth pace in the first half of 2007, underpinned by sustained world economic expansion, the global electronics upswing, and the recovery in domestic demand. Growth is expected to soften later in the year, reverting to trend, as the global electronics cycle begins to turn. Real GDP growth reached 7.9% in 2006, a marked improvement over the previous year's already respectable 6.4%. This result was driven by growth in exports, high investment levels, employment, and domestic demand. But growth on this scale and a tightening labor market has increased concerns of increased inflationary pressures, suggesting a likely continuation of the tightening bias into 2007. Moreover, slowing world economic growth is expected to dampen exports considerably, resulting in GDP growth of 4.5% this year.

Growth in 2006 was underpinned by robust export demand, notably electronics and PCs which increased by 8% and 45% y/y, respectively. Domestic demand was also bolstered by much higher fixed investment (+8.9%). Employment growth hit a two decade high, rising by 48,000 in the fourth quarter of 2006 to 173,300, an unemployment rate of 2.7%. Services accounted for almost two thirds of that growth. Given Singapore's export orientation and high exposure to external shocks, the government has recently been diversifying the country's export mix away from manufacture and electronics. The authorities are focusing on diversifying the economy, notably into pharmaceuticals, biotechnology, tourism, and wealth management.

The latest report on economy recently released by Government of Singapore shows that growth picked up pace in the second quarter of 2007, with GDP expanding by 8.6 per cent year-on-year following 6.4 per cent in the previous quarter. Growth on a seasonally-adjusted quarter-on-quarter annualized basis increased to 14 per cent from 8.8 per cent in the first quarter². Overall, the Singapore economy grew by 7.6 per cent in the first half of 2007. Growth has become more broad-based in the second quarter, with the financial services and construction sectors registering double-digit growth, and the manufacturing sector remaining healthy despite a slowdown in electronics. Financial services expanded by 17 per cent in the second quarter, up from 14 per cent growth in the first quarter. The banking cluster was supported by strong growth in both the domestic segment and offshore Asian Dollar Market, with loans to non-bank customers rising by 10 per cent³. The wealth advisory cluster remained buoyant, riding on growing affluence in the region and continued demand domestically for professional fund management services. The

² skepticalspeculator.blogspot.com/2007

³ www.todayonline.com/articles/204947.asp

construction sector grew by 18 per cent, the strongest growth in almost 10 years. Private construction was supported by robust growth in the residential, commercial and industrial segments while public construction was led by housing projects. Growth in the manufacturing sector picked up pace to 8.3 per cent, with strong growth in biomedical manufacturing and transport engineering more than making up for the slack in electronics. Increased diversification within the manufacturing sector – with electronics, chemicals, biomedical manufacturing, transport engineering and precision engineering acting as the main growth engines – has made the sector more resilient to industry-specific shocks. Continued strong economic growth has supported job creation. Employment grew strongly by 61,900, higher than 49,400 in the first quarter. The seasonally adjusted unemployment rate fell to 2.4 per cent in June 2007 from 2.9 per cent March 2007. The number of workers retrenched declined to 1,600, from 2,000 in the previous quarter. Labor productivity increased by 0.4 per cent following a 1.3 per cent decline in the previous quarter. This helped to moderate the increase in unit labor cost, which rose by 5.7 per cent in the second quarter after a 5.9 per cent increase in the preceding quarter. The unit business cost of manufacturing also improved, rising by 1.9 per cent compared to 3.3 per cent the first quarter.

Singapore has demonstrated ability to overcome adverse external shocks despite its very high degree of openness. Conversely, its future prosperity will depend on its ability to take advantage of globalization trends amidst some domestic drawbacks which include an ageing population and manufacturing industry. In this light, in addition to diversifying the economy, the authorities are seeking to position Singapore as a global financial center. Notable measures already taken in this regard are: financial center liberalization; promoting tax-exempt status; and developing the local domestic asset management industry. In the shorter run, however, a rising currency and slowing global demand will crimp export growth, and hence GDP growth.

Section Three

Major strategies & Thrust Areas

The Singapore government's strategies to face growth with justice in a globalized world mainly focus on growing the economy and building capabilities. The government defined its Vision 2018 as:

- *In a globalized economy where Singapore is the key node in the global network, linked to all the major economies;*
- *a creative and entrepreneurial nation willing to take risks to create fresh businesses and blaze new paths to success; and*
- *a diversified economy powered by the twin engines of manufacturing and services, where vibrant Singapore companies complement MNCs, and new startups co-exist with traditional businesses exploiting new and innovative ideas.*

With this broad objective and vision, the recent budget of Singapore government identified certain thrust areas where government would focus for building capability and maximizing potential. The thrust areas include the following:

Education

Getting a top-rate school education provides a critical foundation for every Singaporean, and the government is committed to improve quality of education and building of skilled man power in the country especially in the context of threat from India and China. To help Singaporeans pursue their tertiary education, the government decided to create a Post-Secondary Education Account (PSEA) for every Singaporean aged seven to 20. Students can use the PSEA at publicly-funded universities, polytechnics, ITEs etc. Moreover to support unskilled workers, the government decided to support for lifelong learning in technical skills, IT training etc. Even though the government has already spent up to \$170 million a year on adult worker training, drawn from the Skills Development Fund (SDF) and the Lifelong Learning Endowment Fund (LLEF), it is less than the spending for life long education in other developing countries. Thus Singapore is committed to make life long learning and skill development of work force as a competitive challenge to be dealt with.

Research & Development

Another potential area which is identified in latest budget of Singapore is research and development. It is expected that more investment in R&D will build up the capabilities that will help drive economy over the long-term. Since Singapore is an innovation and knowledge driven economy, Government plans to invest 3% of GDP on R&D annually by 2010 up from 2.4% in 2005. The objective is to build up a critical mass of top-rate researchers in Singapore, who will create new intellectual property in research institutes, universities and hospitals, and will bring in new, technology-driven activities which will spin off benefits to the rest of the economy. Investment in R&D is critical, for Singapore to be a leading Asian hub for high-value, knowledge-based industries, even as Beijing, Bangalore and other cities catch up. Apart from the National Research Fund of \$500 million, government is expecting to spend a total of \$2 billion for R&D this year.

High thrust services

Singapore is trying to develop itself as a centre for a range of “high-trust” services - from legal and financial services to highly specialized, niche services. In legal services the thrust is to position Singapore as a trusted centre for high-end arbitration work focused on efficiency, reliability and neutrality. Government is committed to promote international arbitration activities and is planning for an international integrated dispute resolution complex.

Since financial sector is one of the key pillars of Singapore economy, the objective is to open up market for more investment from other countries including Middle East. Banks in Singapore are structuring various new products, including Islamic financial products, such as *murabaha* investment products and Shariah-compliant mutual funds, to meet the

needs of this new class of global investors. To give boost to the thriving financial market, government decided to enhance tax incentives relating to Finance and Treasury Centers, OTC financial derivatives, and Qualifying Debt Securities.

Another thrust area is to make Singapore a philanthropy hub in Asia. The presence of more global philanthropic grant makers in Singapore will go hand in hand with the growth of local philanthropy - injecting vibrancy, promoting collaborative ventures and sharing best practices. The government announced automatic income tax exception for all charity organizations working in Singapore which will enable them to optimize their activities in Singapore and in the region. Currently, individuals and companies can obtain double tax deductions for donations to Institutions of Public Character (IPCs) but not for donations to foundations and other grant makers. The new budget allows double tax deduction for all donations made to philanthropic grant making organizations, as long as these donations are subsequently channelled to an IPC in Singapore. More over government introduced a tax incentive scheme to give income tax exemption to other Not-for-Profit Organizations (NPOs) that can bring economic value to Singapore. The targeted NPOs include those which have links to key clusters of economy, such as the International Bar Association (IBA) and the Joint Commission on Accreditation of Healthcare Organizations (JCAHO⁴).

Logistics, Aviation and maritime services play a vital role in Singapore's growth prospects. Realizing the significance of these core sectors in the era of global integration, government introduced special measures. It is decided to enhance the Approved Shipping Logistics Enterprise Scheme by extending the incentive period from five years to 10 years with a view to encourage shipping logistics companies to grow their activities in Singapore. In Aviation industry Singapore aims to sustain its leadership position in the region with more emphasis on regional leasing activities of aircrafts and engines.

Economic infrastructure building

Another thrust area for Singapore for the next 10 years is building up economic infrastructure with continued focus on manufacturing and service sector-the key pillars of economic growth in Singapore. A major step forward economic infrastructure is designed through the Intelligent Nation 2015 Master Plan, estimated to cost \$4 billion. Through this plan Singapore envisaged to the country a centre for creating and commercializing new media technologies, as well as a whole array of digital content and services in areas such as healthcare, education, and games-on-demand. The pervasive nature of IT infrastructure will also encourage any Singaporean to take full advantage of connectivity to the world, or even to create something new and take it to market.

In energy sector Singapore has prominent position as oil refining and trading centre. To retain this position and making Singapore as an energy hub in Asian region, government plans to invest on new billion-dollar Liquefied Natural Gas (LNG) terminal which will be ready to supply a third of Singapore's gas demand by 2012. More than that, as gas catches on regionally and globally as a source of energy, it will help to position Singapore as a gas hub.

⁴ For more details see Singapore government budget 2007.

International trade agreements

Singapore is more open and flexible in signing free trade agreements with potential partners. Supportive of global free trade, multilateralism, and WTO, it is realistically active in regional trade agreements, from ASEAN, and APEC to Asia-Europe Meeting and Forum on East Asia- Latin American Economic co-operation [FEALAC] to being a first mover in bilateral free trade agreements. Thus Singapore's multi track trade policy seeks to create balance insurance and opportunity in an emerging world of international trade and commerce. Free Trade Agreements help the Singapore-based exporters and investors to enjoy numerous profits and opportunities including duty concessions, privileged right of entry to certain sectors, faster entry into markets and Intellectual Property (IP) protection. FTAs are designed in way to attain growth and increase in volume of trade, especially in service industry. Singapore strongly feels that bilateral trade agreements are the effective means to address the stiff competition from other regional players like China and India.

Conclusion

Singapore economy is highly dependent on global economic fluctuations. As far as global economic environment is healthy, Singapore path towards greater economic prosperity will gain rich dividends, even though the country face challenge from rising Asian powers like China and India. Reflecting the favorable external environment, both manufacturing and services firms continue to expect better business conditions in the next half of the year. The consensus forecasts in the market for Singapore's GDP growth are creeping upwards while the composite leading index continues to increase. The improved outlook reflects higher growth in financial and business services, manufacturing, and construction. The driving factors underpinning the higher forecast are broad-based: strong global demand in the biomedical, aerospace and marine industries, robust regional demand for financial services, and a buoyant domestic property market. Fortunately, Singapore's leadership and public management system closely observe the global economic developments and design the best available alternative strategies to cope up with any potential threats to its predominant position. Hence the future of Singapore economy largely depends on the political will of the government to sustain its economic capability through pragmatic vision and mission.

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