

9

Singapore

Singapore is a high-income island located in the Pacific with real per capita GDP (PPP-adjusted) of US\$26,763 and total population of 4.4 million in 2005. Singapore, with an average annual growth rate of 7 per cent since the 1990s, is a well-known economic success story. The services sector has played an important role in the economic development of this small island, contributing to 64 per cent of GDP and over 69 per cent of employment in 2005 (Chart 9.1). Its GDP and employment share is comparable to that of other high-income East Asian economies such as Japan, Taiwan and South Korea.¹

The services sector has grown steadily in Singapore. In 2004 alone, the value added by services rose by 12.4 per cent. The contribution of trade in services to GDP has also increased significantly over the years (Chart 9.2). In 1990, trade in services accounted for 58 per cent of GDP, which increased to 76 per cent in 2004.

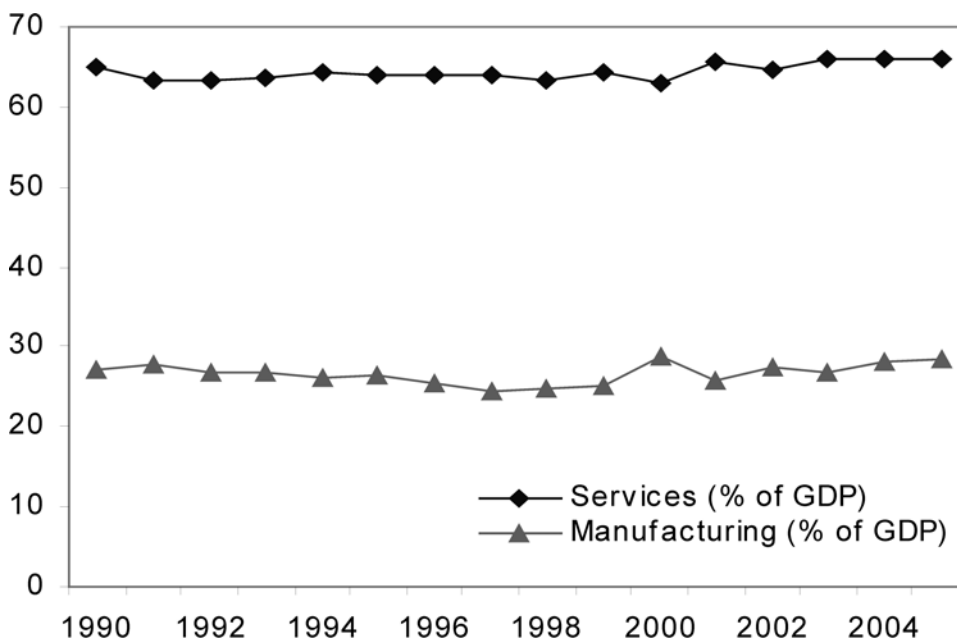


Chart 9.1: Contribution of services to GDP in Singapore (%)

Source: Based on World Bank (2006)

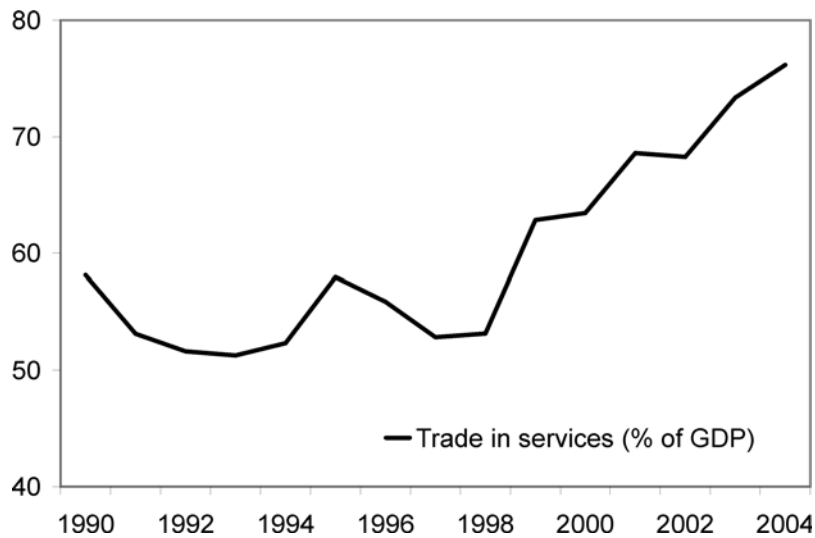


Chart 9.2: Contribution of trade in services to GDP in Singapore (%)

Source: Based on World Bank (2006)

Singapore has always been a net exporter of services.² The share of service exports in total trade of services has remained fairly constant at over 15 per cent since the mid-1980s (Chart 9.3). However, the import share has risen gradually, but especially since the late 1990s.

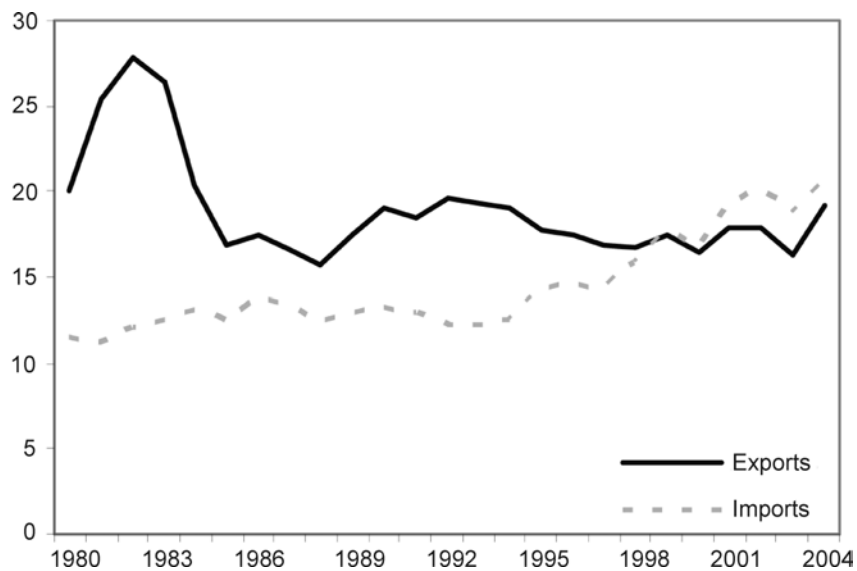


Chart 9.3: Exports and imports of services as a % of total trade of Singapore

Source: Based on UNCTAD (2005)

The main sub-sectors in services are the wholesale and retail trade; hotels and restaurants; transportation, storage, information and communications; financial and insurance services; real estate and business services; and community, social and personal services. The largest number of firms and workers are associated with the wholesale and retail trade sector, which is followed by the real estate and business services, and the community, social and personal services sectors (Chart 9.4).

Performance of selected services

Financial services

The financial services sector is one of the most important services sectors for the economy, contributing 5 per cent to total employment and 11 per cent to GDP. At the end of 2005, about 10,000 firms in Singapore were associated with the financial and insurance services sector; most of these were small firms (with less than 10 employees). According to Singapore's Department of Statistics, financial services had the highest profitability ratio (defined as the ratio of operating surplus to operating receipts) and value added per worker among the main service sub-sectors in 2003 and 2004. The sector is also the second largest recipient of foreign direct investment (FDI) in Singapore. FDI inflows into financial and insurance services were 34.7 per cent of the total FDI inflow in 2005.³

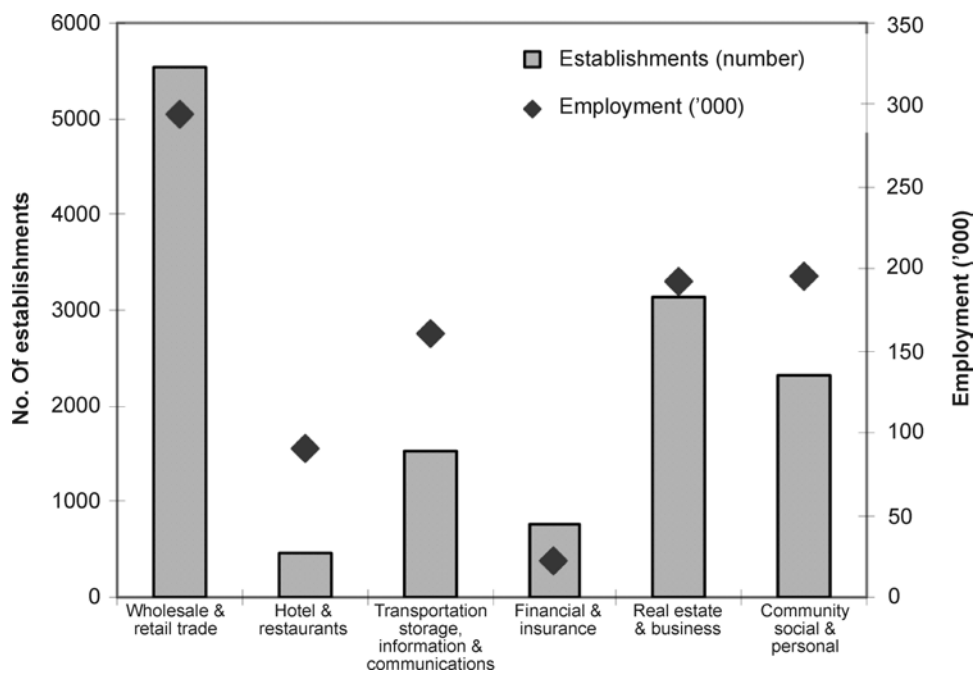


Chart 9.4: Establishments and employment in main services sectors in Singapore, 2004
 Source: *Economic Survey Series 2004*, Department of Statistics, Government of Singapore

The sector is dominated by banks, which accounted for over 85 per cent of total financial sector assets in 2003 (IMF, 2004). There are five local banks, which account for 21 per cent of total financial assets, and 110 foreign banks, which constitute 64.6 per cent of total financial assets. In terms of sector dominance, banks are followed by the insurance sector, which comprises 6 per cent of the total financial assets in the economy.

Singapore is a net exporter of financial services (excluding the insurance sector) (Chart 9.5). The share of financial services in total services trade stood at 6 per cent in 2003. Exports have been going up in recent years, and increased by about 30 per cent in 2003.

In the insurance sector, Singapore is a net importer. The gap between the imports and exports has widened considerably over the years (see Chart 9.6). The average share of exports of insurance services in total trade of services during 2000–03 was about 2 per cent whereas that of imports was 6 per cent. However, insurance exports have picked up sharply since 2000 and increased by 15 per cent in 2003.

Tourism

The tourism sector, which primarily constitutes hotels and restaurants, contributed 2 per cent to GDP and over 5 per cent to total employment in Singapore in 2005. Singapore remained a net exporter of tourism services throughout the 1980s and 1990s, but became a net importer in 2001. Share of tourism exports in services trade also exhibits a declining trend and decreased from 36 per cent in 1990 to 13 per cent in 2003.

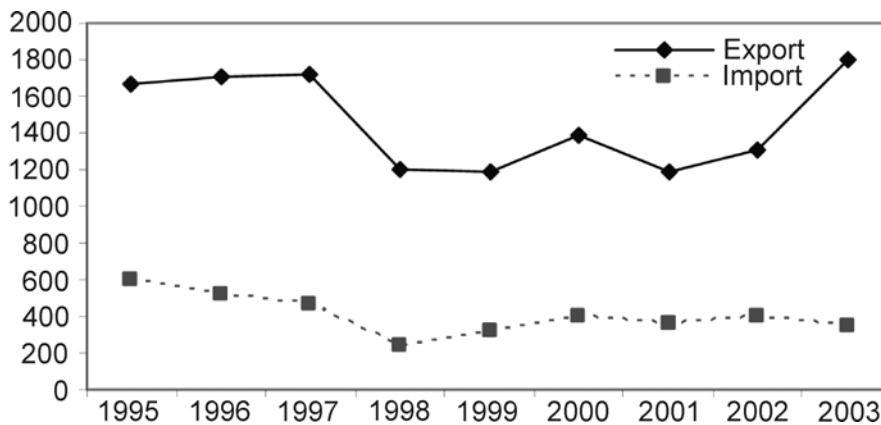


Chart 9.5: Exports and imports of financial services in Singapore (US\$ million)

Source: UNCTAD (2005)

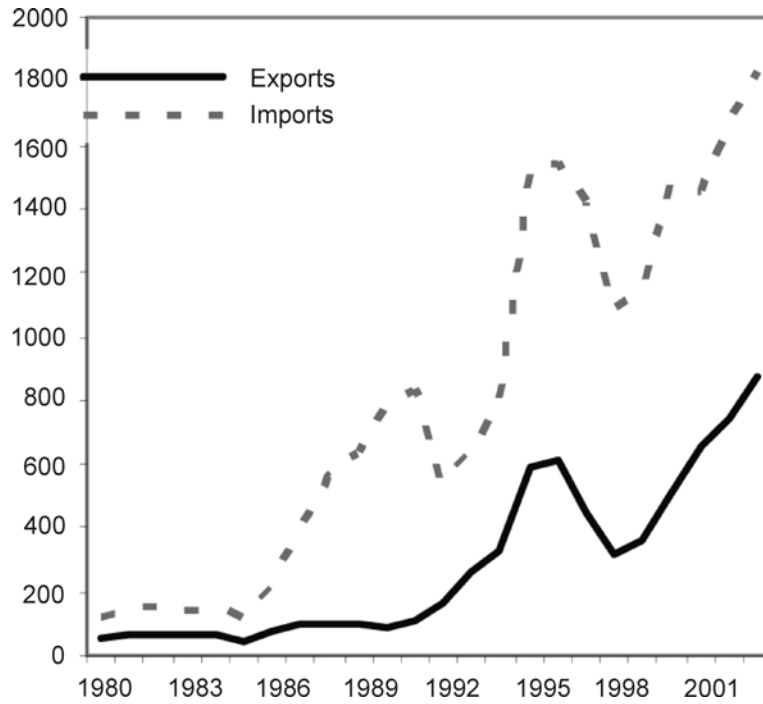


Chart 9.6: Exports and imports of insurance services in Singapore (US\$ million)
 Source: UNCTAD (2005)

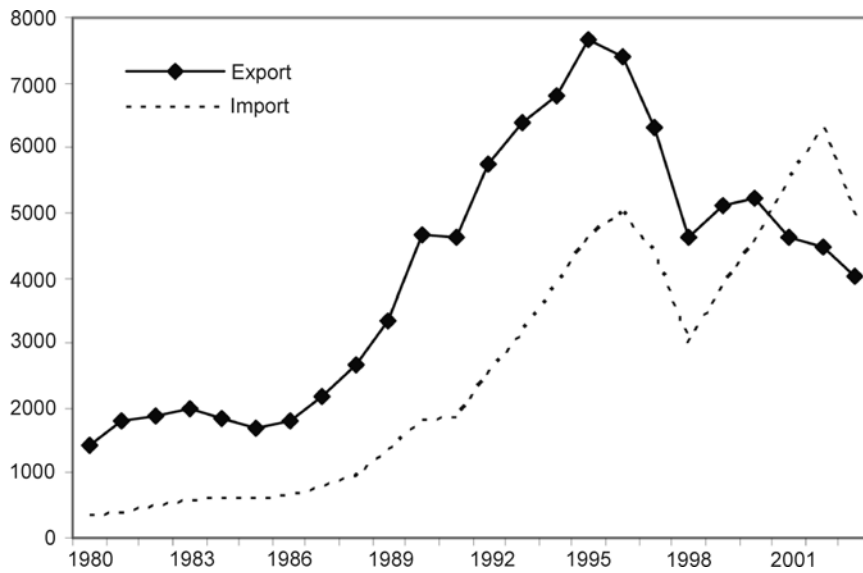


Chart 9.7: Exports and imports of travel services in Singapore (US\$ million)
 Source: UNCTAD (2005)

The number of visitors arriving in Singapore dipped sharply in 2003, falling by about 20 per cent. However, recent estimates of the Department of Statistics indicate that the number of visitors increased by 36 per cent and 7 per cent in 2004 and 2005, respectively.⁴ A vast majority of the tourists visiting Singapore are from the Association of Southeast Asian Nations (ASEAN) region, followed by China, Japan, Australia and the United Kingdom.

Transport and information and communications technology

In 2005, the share of transport and storage in GDP stood at 11 per cent and that of information and communications was 4 per cent. Employment in these sectors constituted 11 per cent of total employment. Total value added by information and communications services grew by 3 per cent in 2004, and that of transport and storage services increased by 7 per cent.

Singapore has been a net importer of transport services since mid-1980s (Chart 9.8). However, the share of transport exports in total services trade has increased significantly from 17 per cent in 1990 to 38 per cent in 2003. It is also a net importer of communications services, which had exports that accounted for 2 per cent of total services trade in 2003.⁵

Table 9.1: Selected indicators of tourism for Singapore, 1990–2003

	<i>Arrivals of visitors (thousands)</i>	<i>Average length of stay (days)</i>	<i>Visitors' expenditures, excluding transport (millions of dollars)</i>
1990	4,842	3.30	4,937
1991	4,913	3.26	4,767
1992	5,446	3.14	6,081
1993	5,804	3.01	7,004
1994	6,268	2.95	7,811
1995	6,422	3.71	7,646
1996	6,608	3.29	7,402
1997	6,531	3.27	6,300
1998	5,631	3.43	4,602
1999	6,258	3.18	5,089
2000	6,917	3.16	5,229
2001	6,725	3.19	4,617
2002	6,997	3.08	4,463
2003	5,705	3.18	3,998

Source: UNCTAD (2005)

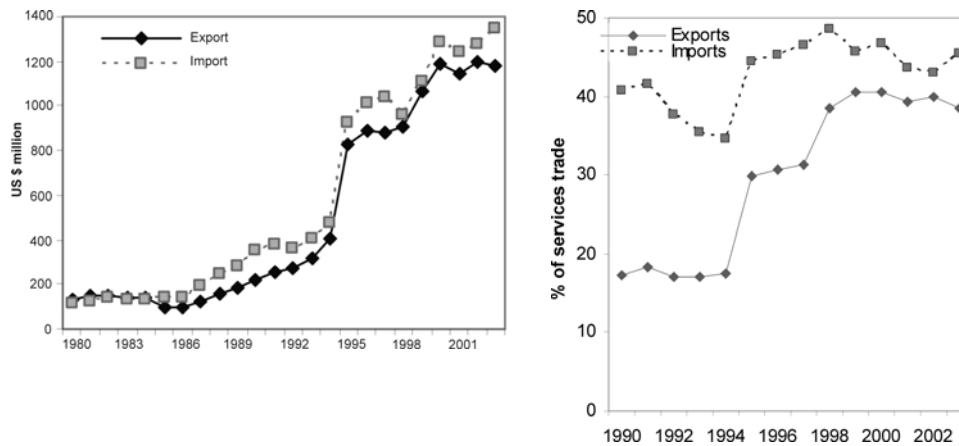


Chart 9.8: Exports and imports of transport services by Singapore
 Source: UNCTAD (2005)

In computer and information services, Singapore is a net exporter (Chart 9.9). Its exports have increased and imports have declined sharply since 2001. However, despite the increase in exports, this services sub-sector still constitutes only 1 per cent of total services trade.

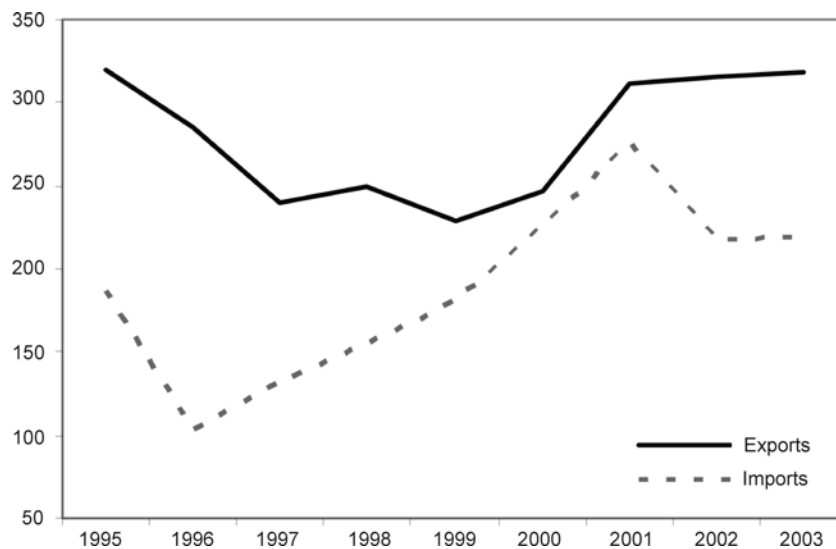


Chart 9.9: Trade in computer and information services for Singapore (US\$ million)
 Source: UNCTAD (2005)

Professional business services

Business services are an important part of Singapore's economy, contributing 12 per cent to GDP and 11 per cent to total employment. With over 31,000 establishments, the sector expanded by 10 per cent in 2004. Total FDI inflow into business services (including real estate) was 5.9 per cent of total FDI.

The country is a net exporter of business services (Chart 9.10). Exports (in nominal terms) increased sharply from the mid-1980s to early-1990s, before plunging sharply. However, they have recovered since the late 1990s and accounted for about 35 per cent of total services trade in 2003.

Educational services

According to statistics from 2004, the education services industry comprises of about 50,000 workers; this accounts for around 5 per cent of total employment and 3 per cent of GDP. Value added by the education services industry increased by 0.3 per cent in 2004. In 2004, about 2,900 establishments were affiliated with education services, of which over 80 per cent were small. Larger institutions are often more profitable in Singapore and also have higher value added per worker.⁶

Since the mid-1980s, the government has embarked upon an ambitious programme of making the education sector one of the country's key sectors and Singapore the centre

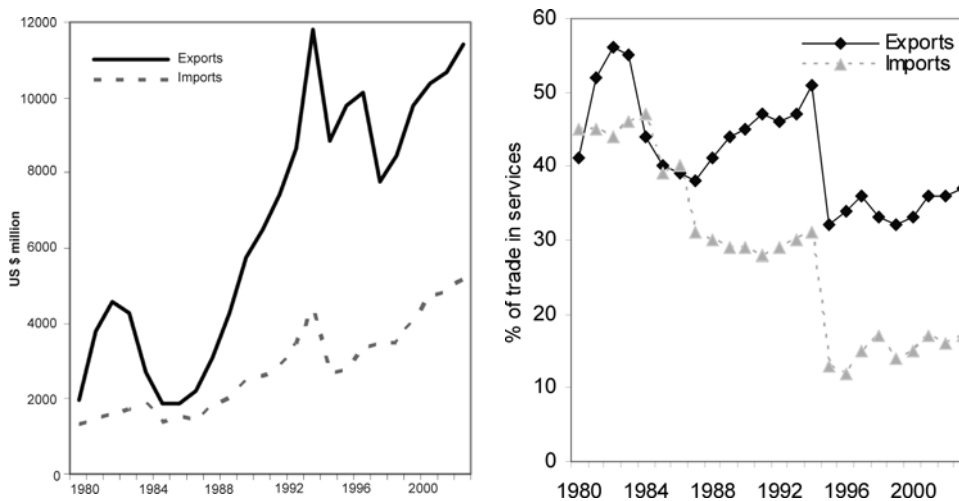


Chart 9.10: Exports and imports of other business services of Singapore, 1980–2003*

Note: * includes merchanting and other trade-related services; operational leasing services; and miscellaneous business, professional and technical services.

Source: UNCTAD (2005)

of education for regional and international students. Well-designed policies and strategic efforts have resulted in attracting overseas students, and as of 2005 more than 70,000 foreign students were studying in Singapore.⁷ Campuses of 16 well-known international institutions from the USA, UK and Australia are operating in Singapore.

Supporting factors

Domestic capacity and skills

The domestic environment of Singapore is ideal for further development of the private sector. It ranks fifth out of 124 countries in the Global Competitiveness Index, compiled by the World Economic Forum, which is a composite measure of the state of institutions, infrastructure, macroeconomic performance, health and primary education, higher education and training, market efficiency, technological adaptability, business sophistication, and innovation.

In terms of skills, Singapore has a comparative advantage over its regional competitors because of its highly-competitive, skilled, English-speaking workforce. Its total adult literacy in 2005 was 93 per cent. The net secondary and gross tertiary school enrolment ratios in 1999 were 76 and 39 per cent respectively.⁸

Singapore has well-developed information and communications technology (ICT) systems. A comparison of the access, quality and affordability of its ICT with high-income countries indicates that its performance is better than an average high-income country in the three respects (Table 9.2).

Table 9.2: ICT indicators for Singapore (2005)

	<i>Singapore</i>	<i>High-income group</i>
Access		
Tel. main lines per 1,000 people	425	503
International voice traffic (min. per person)	646*	171
Mobile subscribers per 1,000 people	1,010	835
Population covered by mobile telephony (%)	100	99
Internet users (per 1,000 people)	571	527
Personal computers (per 1,000 people)	621	579
Quality		
International Internet bandwidth (bits per person)	5,826	4,537
Affordability		
Price basket for fixed line (US\$ per month, residential)	6.7	27.6
Price basket for mobile (US\$ per month)	6.1	17.8
Price basket for internet (US\$ per month)	20.5	19.9
Price of call to United States (US\$ per 3 minutes)	0.69	0.76

Note: * value is for the year 2000.

Source: World Bank (2006) Information and Communications for Development 2006: Global Trends and Policies. Washington DC: World Bank

Transport infrastructure in Singapore is also of a high standard and 100 per cent of the total road network (3,165kms) is paved. Singapore's main airport (Changi airport) is ranked one of the best in the world and has a network of over 70 airlines. In terms of shipping, Singapore has a highly-modernised and efficient infrastructure and is ranked in the top ten most important maritime nations in the world. Its location and investment-friendly climate (including incentives) has attracted over 40 multinational shipping companies to base their regional headquarters in Singapore.

The financial sector has developed substantially due to an efficient legal system, high accounting standards and good corporate governance (IMF, 2004). Singapore has a highly-developed payment infrastructure, which is one of the best in the world. The infrastructure for clearing and settlement of securities and derivatives is also well developed. In addition, the country has conducive legal, judicial and regulatory environments, which are crucial for private sector development.

Policy and institutional framework

The government has been actively managing Singapore's economy. To provide incentives for investment and innovation, the Pioneer Industries Ordinance of 1959, one of several tax incentives, reduced corporation tax for a fixed period of time provided that firms, both foreign and domestic, developed new products. The Ordinance was part of an industrial strategy that focused on attracting employment-generating multinationals in the 1960s and early 1970s. After an increase in the wages and improvements in the skills of the workforce, the focus shifted to targeting capital-intensive projects in the 1980s and knowledge-intensive sectors in the 1990s. Currently, Singapore's skills base is an important factor in attracting foreign investment to the country.

The country has also been developing its services sector actively since mid-1980s. This was upon the recommendations of its Economic Committee, which was set up by the government to review economic performance and suggest new directions and strategies for accelerating growth and development. To do so, it has improved its infrastructure, improved the regulatory and institutional environment, and has devised well-planned strategies that helped increase domestic as well as foreign investment in the country. Singapore ranks very high in terms of the World Bank's governance indicators and outperforms other small states, the rest of East Asia and an average high-income country (Table 9.3).

In the financial services sector, all financial institutions, securities and insurance companies are under the purview of the Monetary Authority of Singapore (MAS), which is Singapore's central bank. MAS also oversees the regulatory responsibilities of the stock exchange, Singapore Exchange. During 1999–2003, MAS undertook key reforms to liberalise the financial sector and develop its regulatory framework. In 2002, the Financial Advisors Act was implemented to consolidate the different regulations governing financial advisory services and to set high standards of business conduct. The Securities and Financial Services Act was also enacted to integrate supervision of financial firms in the securities and future markets (IMF, 2004).

Table 9.3: Governance indicators for Singapore, 2000–05

	2005	Average 2000–05	High-income group	East Asia	Small states
Political stability	1.08	1.12	0.81	0.39	0.40
Government effectiveness	2.14	2.28	1.27	–0.05	0.25
Regulatory quality	1.79	1.90	1.23	–0.11	0.27
Rule of law	1.83	1.81	1.26	0.16	0.32
Control of corruption	2.24	2.37	1.36	–0.13	0.30

Note: Units of measures range from about –2.5 to 2.5, with higher values corresponding to better governance outcomes.

Source: World Bank (2006)

To improve corporate governance, the Council of Corporate Disclosure and Governance was established in 2002. In 2003, the Code of Corporate Governance, which requires all companies to disclose their governance practices in their annual reports, took effect. Further, listed companies with market capitalisation of at least 75 million Singapore dollars (S\$) are required to issue quarterly reports.

In the tourism sector, the Singapore Tourist Promotion Board (STB) was established in 1964 to promote and develop the tourism industry in Singapore. Since its establishment, STB has actively encouraged investment and infrastructure in hotels and restaurants, tourist attractions and tourist facilities. STB has 22 regional offices across the world, to promote the image of Singapore as a tourist destination abroad.

External conditions

Singapore has been a member of the WTO since 1995 and a member of the Asia-Pacific Economic Cooperation (APEC), which seeks to liberalise trade and investment in the Asia-Pacific region by 2020, since 1994. In addition, it has negotiated free trade agreements (FTAs) with several trading partners, for example, USA, Japan, South Korea, Australia, New Zealand, India, Jordan, Panama, the European Free Trade Association and the Trans-Pacific Strategic Economic Partnership (comprising Brunei, Chile, New Zealand and Singapore). At the time of writing, it was negotiating FTAs with Canada, the Cooperation Council for the Arab States of the Gulf, China, Mexico, Pakistan and Peru.

In the context of the GATS, Singapore has made specific commitments in various sectors including tourism and travel, communications, financial services and professional business services. However, these commitments are subject to certain limitations in modes 1 to 3. For example, financial services are subject to the entry requirements, domestic laws, guidelines, rules and regulations, and terms and conditions of MAS. In terms of telecommunications, fixed-line and mobile networks, and value-added telecom services, are all subject to restrictions on entrance and competition in addition to the horizontal commitments.

Institutional support structure

In Singapore, the Economic Development Board (EDB) is the principle and highly efficient government agency responsible for planning and implementing economic strategies and finding new directions and prospects for growth. It places special emphasis on developing capital and innovation-intensive activities so as to make Singapore the hub of international investment.

The EDB supports the operations of both local and foreign investors in the manufacturing and services sectors. It is a highly pro-active organisation, which is also playing an important role in expanding existing industry clusters. It has an investment body, EDB Investments Pte Ltd (EDBI), established for the purpose of equity investments that are geared towards the growth of industry clusters and emergent technologies and innovations. The EDBI invests into projects in partnership with local and multinational companies to further develop key industries.

In the private sector, the Singapore Business Federation is the most important body for assisting businesses in strengthening their trade, investment and networking relations. It facilitates interaction between the public and private sectors in Singapore and represents the private sector internationally. It has over 15,000 members, which include over 20 per cent of the country's top companies.

Conclusions

The emergence of Singapore as a regional and international hub for services is due to the close co-operation and partnership between the public and private sectors in the country and the combined initiatives of those sectors. The government reviews the economic performance of the economy, identifies niche markets with growth potential, sets targets for medium- and long-term growth, and devises and implements strategic plans to achieve those targets. The private sector builds on the services and facilities provided by the government and makes full use of its potential. A classic example of this is the development of Singapore's education sector. The Economic Committee of Singapore stressed the need for developing a strong tertiary education sector in the mid-1980s and reaffirmed that need in 2001. Since then, the government has undertaken numerous initiatives to promote tertiary education in the country. Besides establishing three world-class public universities, the EDB embarked upon an ambitious plan to attract renowned foreign academic institutions and bring in more specialised programmes through tie-ups with local private educational institutions. A recent important initiative in promoting educational services further is 'Singapore Education' - described in Box 9.1.

Box 9.1: A Singapore government initiative in tertiary education: 'Singapore Education'

In 2003, a multi-government agency initiative, Singapore Education, was launched by the EDB with the support of the Singapore Tourism Board (STB), the Standards, Productivity and Innovation Board (SPRING), International Enterprise (IE) and the Ministry of Education (MoE).

Each agency has been assigned specific tasks to promote Singapore's educational sector and attract more foreign students to the country. The EDB conducts negotiations with foreign academic institutions, providing them with incentives and information to open campuses in Singapore. The STB is responsible for marketing educational services overseas and provision of information on facilities to foreign students in Singapore. SPRING, meanwhile, administers quality accreditation for private education organisations in the country, and IE helps good schools in Singapore to develop their businesses and set up campuses overseas. Finally, the MoE is responsible for overseeing the local school system.

Notes

1. In 2004, the GDP share of services in Japan, Taiwan and South Korea was 69, 69 and 56 per cent, respectively, and the employment share of services was 68, 66 and 64 per cent, respectively.
2. Source: World Bank (2006) and UNCTAD (2005).
3. The largest recipient was the manufacturing sector, with 35.2 percent of total FDI inflow.
4. Source: <http://www.singstat.gov.sg/stats/stats.html#latestdata> [accessed 11 June 2008]
5. Source: <http://www.singstat.gov.sg/stats/stats.html#latestdata> [accessed 11 June 2008]
6. Source: Singapore's Department of Statistics.
7. Source: http://www.edb.gov.sg/edb/sg/en_uk/index/industry_sectors/education_services.html [accessed 11 June 2008]
8. Source: World Resources Institute (2003) *Population, health and human well-being – Singapore*. Also available at: http://earthtrends.wri.org/pdf_library/country_profiles/pop_cou_702.pdf [accessed 2 June 2008]

