

I. ECONOMIC ENVIRONMENT

(1) MAJOR FEATURES OF THE ECONOMY

1. Singapore's economy remains one of the most open and competitive in the world, and its institutions continue to be assessed as the best in terms of lack of corruption and government efficiency.¹ Singapore is also considered the easiest economy in which to do business.² GDP per capita is estimated at around US\$50,000 in 2011. Singapore ranks 26th (out of 187 countries) on the UNDP's Human Development Index.³

2. Services constitute the most important sector in terms of contribution to nominal value-added (VA) (over two thirds) and total employment (about 70%). Manufacturing accounts for 21% of VA, around 16% of employment, and almost 70% of the total value of merchandise exports (section (3)(i) below). Construction and utilities contribute 4% and 1.5%, respectively, to Singapore's VA while the share of agriculture, fishing and quarrying is negligible (Table I.1).

3. Singapore continues to have a managed float exchange rate regime with the value of the Singapore dollar (S\$) set by the market.⁴ The Monetary Authority of Singapore (MAS) monitors its value against an undisclosed trade-weighted basket of currencies. The composition of this basket is reviewed periodically to take into account changes in Singapore's trade patterns. The exchange rate is maintained within an undisclosed target band.⁵ The U.S. dollar is the intervention currency. According to the IMF, Singapore's exchange rate regime continues to serve the economy well and the MAS' policy framework has been an important source of stability in times of economic turbulence.⁶ The exchange rate system is free of restrictions on payments and transfers for current international transactions.

(2) RECENT ECONOMIC PERFORMANCE

4. At the time of its fifth TPR, Singapore's economic performance had been strong, with average GDP growth of 8.5% per year during 2004-07, low inflation (1.3% annual average), declining unemployment, and strong external indicators. Nonetheless, income inequality had widened and its competitiveness had been tested by the rise of low-cost economies in the region.⁷

5. Since then, Singapore's economy has suffered the effects of the 2008 global downturn, and activity started to shrink in the second quarter of that year. At its low mark in the second quarter of 2009, GDP was 9% lower than pre-crisis, the biggest output decline in 20 years.⁸ However, the economy's flexibility enabled it to adjust rapidly through, *inter alia*, a countercyclical large fiscal

¹ In the Global Competitiveness Index, Singapore ranks 2nd out of 142 countries and economies (World Economic Forum, 2011a). According to the Institute for Management Development (IMD), Singapore is third in the overall competitiveness ranking, 7th in the world and 1st in Asia in terms of less corruption (IMD, 2011).

² The World Bank's Ease of Doing Business Index is based on ten topics (Singapore's ranking in parentheses): starting a business (4); dealing with construction permits (3); getting electricity (5); registering property (14); getting credit (8); protecting investors (2); paying taxes (4); trading across borders (1); enforcing contracts (12); and resolving insolvency (2). World Bank Group online information. Viewed at: <http://www.doingbusiness.org/data/explore/economies/singapore/>.

³ UNDP (2010).

⁴ Singapore's exchange rate is classified as "other managed" (IMF, 2010).

⁵ The policy band itself is adjustable and allowed to "crawl" to prevent misalignment in the currency.

⁶ IMF (2010).

⁷ WTO (2008).

⁸ IMF (2010).

stimulus and monetary easing, while strong economic fundamentals, openness to international trade/foreign investment, and labour market flexibility provided important buffers.⁹ As a result, the recovery was as swift as the contraction.¹⁰

6. Real GDP grew at an annual average rate of 5.9% in 2007-11, with a record 14.8% in 2010 after contracting by 1% in 2009 (Table I.1). Growth was broad-based across private and public consumption and investment, while stronger than anticipated external demand propelled exports particularly of manufactured goods (section (3)(i) below)). Singapore also experienced a surge in transport and wholesale trade activities, reflecting its role as a regional trading and logistics hub. Labour markets too proved more resilient this time around than in previous recessions: the unemployment rate increased from 2.1% in 2007 to 3% in 2009 but has since declined to 2% in 2011.

Table I.1
Selected macroeconomic indicators, 2007-11

	2007	2008	2009	2010	2011 ^a
Miscellaneous					
Real GDP (% change)	8.9	1.7	-1.0	14.8	4.9
Inflation (CPI average; % change)	2.1	6.6	0.6	2.8	5.2
Unemployment rate (average; %)	2.1	2.2	3.0	2.2	2.0
National accounts^b (% change)					
Private consumption	6.8	3.3	0.1	6.5	4.1
Public consumption	2.6	6.4	3.6	11.0	0.9
Gross fixed capital formation	17.4	13.0	-2.9	7.0	3.3
Exports of goods and services	9.0	4.7	-7.8	19.1	2.6
Less: Imports of goods and services	8.1	9.5	-11.1	16.2	2.4
Share of nominal value-added^b					
Manufacturing	24.2	20.6	21.1	22.1	20.9
Construction	3.1	4.4	5.3	4.3	4.2
Utilities	1.5	1.5	1.5	1.5	1.5
Services	67.8	69.2	67.8	68.1	69.0
Money and credit					
Money supply (M1; % change)	22.4	18.4	23.5	20.3	14.8
Lending to non-banking sector (% change)	19.9	16.6	3.4	14.7	30.3
3-month interbank rate (%)	2.4	1.0	0.7	0.4	0.4
Public finances^c (% of GDP)					
Operating revenue	14.8	15.6	14.2	14.8	15.1
Total expenditure	12.1	14.5	15.1	14.5	14.2
Special transfers	0.8	2.7	2.0	2.3	2.6
Overall balance	2.8	0.1	-0.3	-0.3	0.7
External sector					
Real exchange rate (end of period, 2005 = 100)	104.5	109.0	107.3	114.4	117.0
Singapore dollar per US dollar (average)	1.51	1.41	1.45	1.36	1.26
Current account (% of GDP)	25.8	13.9	16.2	24.4	21.9

Table I.1 (cont'd)

⁹ In particular, employment subsidies and training programmes were highly successful in supporting household income and businesses access to credit (IMF, 2010).

¹⁰ From a historical perspective, this upswing has been more vigorous than those following the 2001 dotcom crash and the 1997-98 Asia crisis (IMF, 2010).

	2007	2008	2009	2010	2011 ^a
Gross official reserves (USD billion)	163.0	174.2	187.8	225.8	237.7
Import cover ^d	4.9	6.5	5.5	5.7	5.8

a Preliminary.

b Value-added at current prices.

c Central government. Based on fiscal year, e.g. 2007 is FY2007, starting 1 April to 31 March.

d In months of next year's imports of goods and services.

Source: Information provided by the authorities of Singapore.

7. Price dynamics have mirrored those of output. Consumer price index inflation declined quickly and turned negative in the second half of 2009 as the economic downturn suppressed price rises across most items; inflation pressures resurfaced from early 2010 along with economic recovery and rising fuel and transport costs. The average annual rate of inflation was 3.5% over 2007-11. The main goal of the monetary policy conducted by the MAS is price stability as a basis for sustainable growth.¹¹ According to the IMF, monetary policy responded well to the global economic crisis and helped foster the recovery.¹² For 2012, the IMF expects inflation of 3.5% (5.2% in 2011).¹³

8. Fiscal policy contributed to the swift recovery of the economy. The Central Government's expenditure (including special transfers), as a percentage of GDP, increased from 12.9% in 2007 to 16.8% in 2011 due, *inter alia*, to a fiscal stimulus of around S\$20.5 billion in 2009 in response to the global economic crisis. As a result, the overall balance went from a surplus of 2.8% of GDP in 2007 to deficits of 0.3% in 2009 and 2010. A surplus of 0.7% of GDP is estimated for 2011 (Table I.1). With the economic recovery, some of the key components of the fiscal stimulus were withdrawn, such as the job credit scheme and the credit to sustain the operation of certain businesses (e.g. special risk-sharing initiatives). Since then, the focus has shifted from crisis relief measures to supply-side measures in order to promote productivity growth; expand transport, housing and healthcare infrastructure capacity; and increase support for low-income households and workers.

9. Singapore, as much of the rest of the world, has seen a marked increase in inequality over the last two decades.¹⁴ To tackle inequality and population ageing social safety nets (i.e. benefits based on the Central Provident Fund (CPF)¹⁵; housing¹⁶; healthcare; and the workfare scheme¹⁷) are being strengthened. Singapore is also to reduce its demand for foreign workers, *inter alia*, in manufacturing (from 65% to 60%), and in services (from 50% to 45%). These ratios will apply as from 1 July 2012 for new workers, and as from 1 July 2014 for existing workers.

¹¹ The MAS targets a nominal effective exchange rate (NEER) band to safeguard price stability. The money market tools used by the MAS include foreign exchange swaps, inter-bank lending/borrowing, and sales and purchases or repurchases agreements in government securities.

¹² When necessary, the MAS has intervened in the foreign exchange market to dampen upward pressure on the Singapore dollar (and thus deliver price stability), sterilizing the liquidity injections to limit the volatility of domestic interest rates (IMF, 2010).

¹³ IMF (2012a).

¹⁴ Singapore has the second-highest income gap between the rich and the poor among the 42 countries with very high human development (UNDP, 2010).

¹⁵ The CPF is a mandatory savings scheme financed by contributions from employers and employees. It covers around 90% of the resident population and is the centrepiece of Singapore's "personal responsibility" system for the provision of social services.

¹⁶ Home ownership is close to 90% even for those in the lowest quintile of incomes.

¹⁷ The workfare scheme, introduced in 2007, comprises, *inter alia*, an income supplement and a training subsidy for workers who earn less than S\$1,700 per month, and provides assistance to older low-wage workers who demonstrate their willingness to help themselves through work. There is no minimum wage.

(3) TRADE PERFORMANCE AND INVESTMENT

(i) Trade in goods and services

10. Historically, Singapore has had significant net capital outflows, the counterpart of persistent current account surpluses (20.5% of GDP on average during 2007-11). Official flows have constituted the bulk of net outflows, reflecting mostly foreign asset accumulation by Singapore's sovereign wealth funds. Net FDI inflows have also been consistently positive (section (ii) below), the result of Singapore's favourable investment and business climate. Gross official reserves, which were drawn down during the world economic downturn, stood at US\$238 billion in 2011 (equivalent to 5.8 months of imports, compared with US\$163 billion in 2007 or 4.9 months of imports) (Table I.1).

11. Singapore felt the impact of the global recession primarily through the trade channel. It has the highest trade to GDP ratio in the world: around 400% on average during 2008-11. From peak to trough, non-oil domestic exports fell by close to 30%. Their revival has been boosted particularly by consumer demand in China and corporate IT investment in the United States. In 2011, Singapore ranked 9th among world merchandise exporters and importers. In services trade, Singapore ranked 6th both among exporters and importers.¹⁸

12. Singapore's merchandise exports include a large volume of entrepôt trade, encouraged by its location and developed port facilities. Overall, re-exports accounted for 45% of Singapore's total merchandise exports in 2011.¹⁹ Singapore continues to rely heavily on manufactured exports (Table AI.1 and Chart I.1), which accounted for 68% of total merchandise exports in 2011 (76% in 2007). They are mainly machinery and transport equipment, office machines and telecommunication equipment, and chemicals. Fuels represented 20% of total merchandise exports in 2011 and agricultural exports only 2.5%. Similarly, manufactured products account for most merchandise imports, with 60% share in 2011 (72% in 2007). Fuels represented 33% of total merchandise imports in 2011 and agricultural imports 3.8% (Table AI.2 and Chart I.2).

13. Taken together, exports to Asian economies account for about three quarters of total merchandise exports in 2011, led by Malaysia (12%), Hong Kong, China (11%), and China (10%). The EU and the United States accounted for 10% and 6%, respectively (Table AI.3 and Chart I.2). The share of exports to ASEAN markets in 2011 was 31% (32% in 2007). The EU was Singapore's largest source of merchandise imports in 2011, with 13%, followed by the United States (11%), and Malaysia (10.7%). The share of ASEAN countries in total imports decreased from 25% to 21% during 2007-11 (Table AI.4 and Chart I.2).

14. Balance of payments data indicate that Singapore became a net exporter of services in 2010, with surpluses of over S\$2 billion per year in 2010-11 (Table I.2).²⁰ In 2011, transportation services accounted for 38% of total services exported, followed by "other business services" (e.g. professional and technical services, and other miscellaneous business) with 20%, and travel with 16%. The main services imports in 2011 were transportation (31%) and "other business services" (25%).

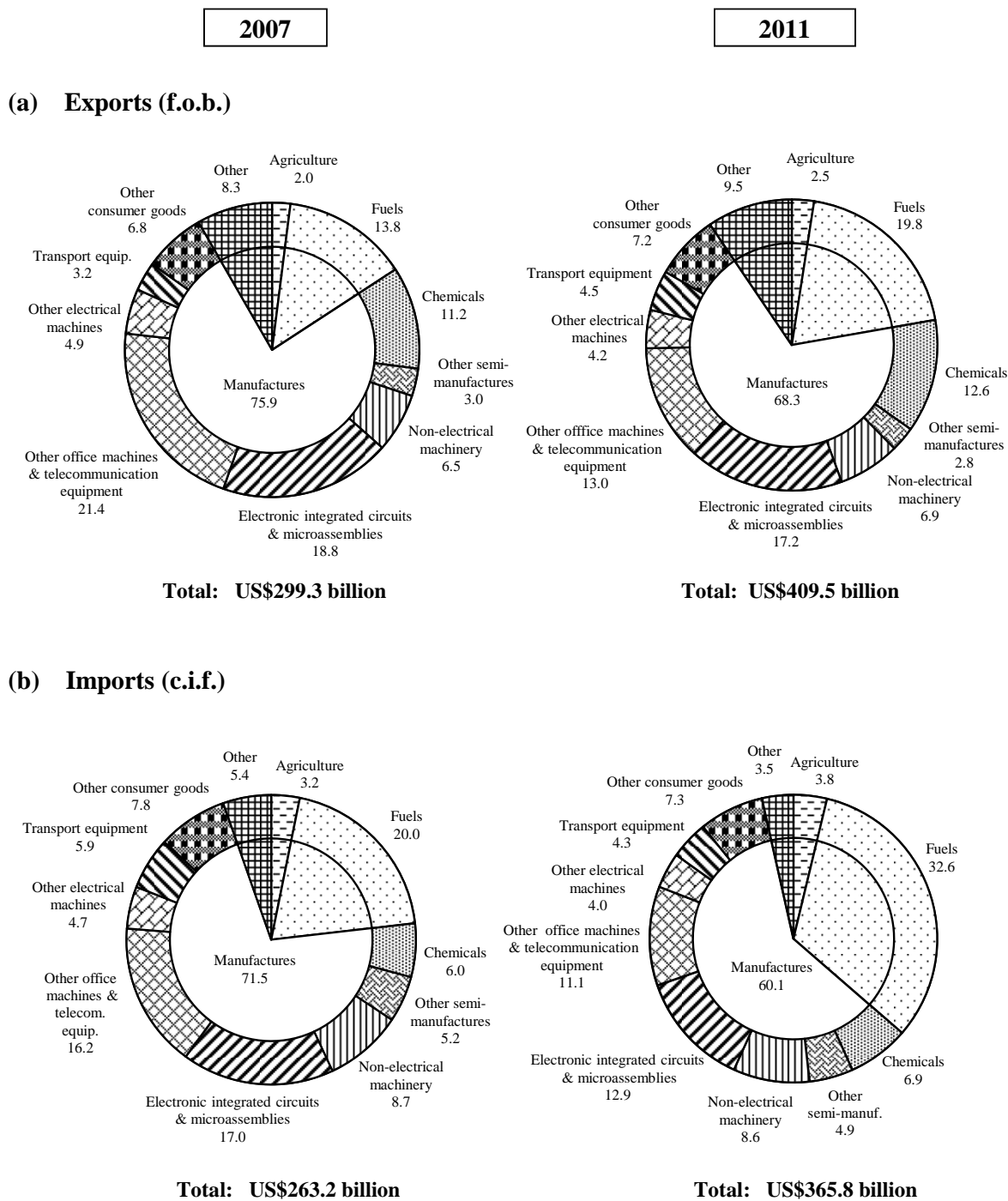
¹⁸ Considering the countries of the EU together and excluding intra-EU trade. WTO Statistics database, "Trade Profiles: Singapore". Viewed at: http://stat.wto.org/CountryProfile/SG_e.htm.

¹⁹ WTO Press Release No. 658, 12 April 2012. Due to lack of data at a more disaggregated level, domestic exports and re-exports could not be calculated in the corresponding Tables and Charts.

²⁰ There have been major changes to the compilation of services statistics by Singapore's Department of Statistics due to the implementation of the latest international standards set out in the IMF's BOP and International Investment Position Manual (Sixth Edition). For example, maintenance and repair services are now included in the services account when previously they were part of the goods account.

Chart I.1
Product composition of merchandise trade, 2007 and 2011

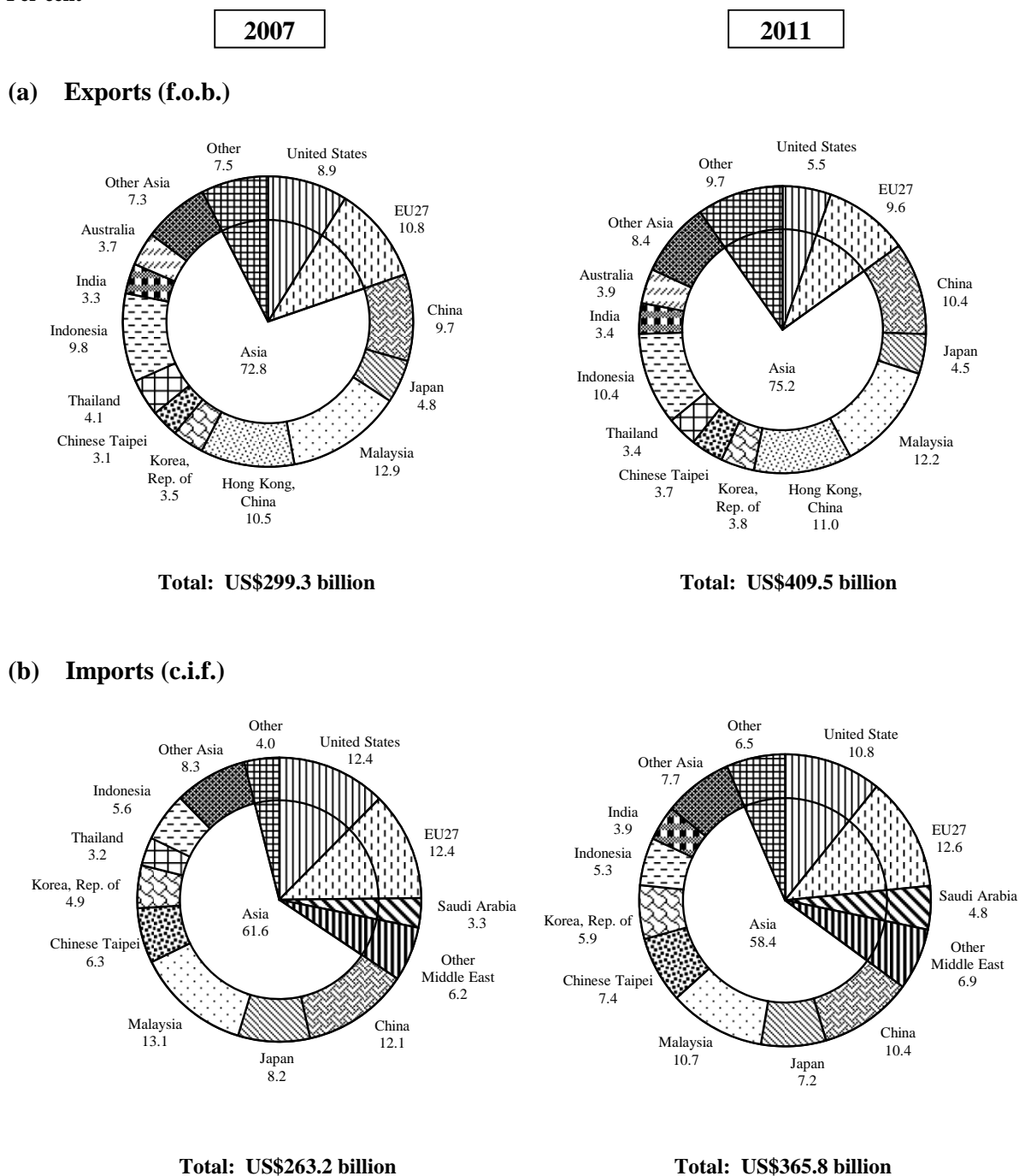
Per cent



Source: UNSD, Comtrade database (SITC Rev.3).

Chart I.2
Direction of merchandise trade, 2007 and 2011

Per cent



Source: UNSD, Comtrade database.

Table I.2
Balance of payments, 2007-11
 (S\$ million)

	2007	2008	2009	2010	2011 ^a
Current account balance	69,082.4	37,275.5	43,836.0	75,686.7	71,679.5
Goods balance	85,998.8	58,948.3	68,755.4	86,033.6	84,840.5
Exports	471,332.2	502,067.2	419,493.0	505,937.3	540,049.1
Imports	385,333.4	443,118.9	350,737.6	419,903.7	455,208.6
Services balance	-3,833.7	-3,781.3	-4,637.0	2,083.9	2,319.8
Exports of services	111,297.5	124,595.6	116,630.6	136,367.6	142,868.0
Maintenance and repair services	6,605.6	8,224.2	8,953.3	8,479.9	9,496.4
Transport	43,859.7	50,118.3	41,853.5	51,969.7	53,850.2
Travel	13,663.5	15,158.9	13,626.3	19,270.4	22,627.2
Insurance	2,342.2	2,633.2	3,744.6	4,408.9	3,730.6
Government goods and services	330.5	360.1	339.1	349.7	362.9
Construction	1,137.1	1,532.2	1,544.6	1,656.3	1,700.0
Financial	15,443.4	15,303.9	15,105.5	16,421.8	16,152.2
Telecommunications, computer and information	2,844.6	3,690.2	3,780.6	4,694.0	4,757.8
Charges for the use of intellectual property	1,051.7	1,001.9	1,145.8	1,434.5	1,543.6
Personal, cultural and recreational	357.7	726.8	762.5	686.5	732.4
Other business services	23,661.5	25,845.9	25,774.8	26,995.9	27,914.7
Imports of services	115,131.2	128,376.9	121,267.6	134,283.7	140,548.2
Maintenance and repair services	546.4	657.6	850.7	761.7	754.6
Transport	42,323.6	43,207.0	36,870.3	41,278.4	44,177.3
Travel	20,209.9	23,156.2	23,053.2	25,402.3	26,543.4
Insurance	3,520.5	3,699.2	4,120.4	5,459.5	4,243.9
Government goods and services	280.3	319.1	320.0	261.3	261.6
Construction	385.1	495.6	618.2	674.6	692.2
Financial	3,465.4	3,573.0	2,971.4	3,486.5	3,268.8
Telecommunications, computer and information	2,673.4	3,213.7	3,271.7	3,997.0	4,026.8
Charges for the use of intellectual property	13,444.8	17,586.2	17,055.1	19,135.6	20,591.3
Personal, cultural and recreational	430.2	609.3	713.4	604.6	644.9
Other business services	27,851.6	31,860.0	31,423.2	33,222.2	35,343.4
Primary income balance	-8,547.8	-12,617.7	-14,470.6	-5,390.4	-7,038.8
Primary income receipts	87,686.1	67,312.3	66,999.2	84,491.4	85,527.4
Primary income payments	96,233.9	79,930.0	81,469.8	89,881.8	92,566.2
Secondary income balance	-4,534.9	-5,273.8	-5,811.8	-7,040.4	-8,442.0
General government (net)	-216.1	-273.6	-232.8	-287.2	-292.7
Other sectors (net)	-4,318.8	-5,000.2	-5,579.0	-6,753.2	-8,149.3
Capital and financial account balance^b	-39,417.0	-21,860.8	-32,985.8	-17,626.8	-50,360.5
Overall balance	29,297.6	18,531.1	16,456.2	57,480.5	21,487.7

a Preliminary.

b The capital account is consolidated under the financial account.

Source: Ministry of Trade and Industry, *Economic Survey of Singapore 2011*, Singapore.

(ii) Foreign direct investment

15. Singapore has traditionally been a major recipient of FDI, with annual inflows averaging almost US\$25 billion since 2007 (Table I.3). On the basis of UNCTAD's latest Inward FDI

Performance Index, Singapore ranked 9th in 2010 (61st in 2008 and 20th in 2009)²¹, while in UNCTAD's Inward FDI Potential Index it ranked 3rd in 2009 (2nd in 2008).²²

16. The EU is Singapore's major investor accounting for 36% of total inflows in 2010, followed by ASEAN (10%), and the United States (9%). Inflows of FDI have been mainly in the services sector (86% of the total in 2010), led by financial services (Table I.3).

17. Singapore is also an increasing investor in the rest of the world, with annual FDI outflows averaging around US\$20 billion since 2005. Investment abroad has been mainly in financial services and manufacturing, particularly in Asian countries.²³

Table I.3
Inflows of FDI by source and sector, 2007-10
(US\$ million)

	2007	2008	2009	2010
Total	37,032.5	8,588.9	15,279.0	35,520.2
ASEAN	1,168.3	659.5	2,108.3	3,377.0
Indonesia	261.0	744.5	985.8	1442.4
Malaysia	549.4	272.0	881.9	1606.5
Australia	960.4	87.5	95.0	752.3
China	695.2	755.3	3,154.9	1,978.1
Chinese Taipei	244.7	105.1	-118.9	295.2
European Union	11,483.3	2,017.3	4,981.8	12,683.8
Hong Kong, China	302.7	-857.7	-1,269.2	-604.8
India	1,743.2	572.8	606.8	2,520.3
Japan	1,865.0	-1,284.6	-1,342.7	1,399.5
Korea, Rep. of	809.5	186.1	203.1	438.6
New Zealand	85.0	-63.6	268.9	82.6
United States	4,258.8	663.5	2,852.8	3,242.5
Other	13,416.4	5,747.7	3,738.2	9,355.1
Sector				
Agriculture	-2.8	3.2	2.3	2.9
Mining and quarrying	15.7	54.6	245.6	125.1
Manufacturing	8,388.8	-1,010.1	7,255.0	4,945.0
Construction	87.4	38.3	262.4	28.7
Wholesale and retail trade	7,135.7	4,329.5	-839.9	3,093.6
Financial & insurance services	8,996.2	527.9	5,130.7	12,404.6
Real estate	4,537.9	2,945.0	4,019.9	9,852.7
Other services	7,873.6	1,700.5	-797.0	5,067.6

Source: Information provided by the authorities of Singapore.

²¹ UNCTAD's Inward FDI Performance Index measures the extent to which host countries receive inward FDI, and ranks countries by the amount of FDI they receive relative to their economic size. It is calculated as the ratio of a country's share in global FDI inflows to its share in global GDP (UNCTAD, 2011b).

²² UNCTAD's Inward FDI Potential Index measures the extent to which host countries receive inward FDI, and ranks countries by the amount of FDI they receive relative to their potential. It is calculated on the basis of structural variables, such as country risk, and trade-related measures (UNCTAD, 2011b).

²³ UNCTAD (2011b).

(4) OUTLOOK

18. Since real GDP growth slowed significantly in the last decade compared with the 1980s and 1990s, the Economic Strategies Committee (ESC) has emphasized the need to achieve future GDP growth by expanding productivity rather than the labour-force-growth of the past decade, including by moderating the influx of foreign workers while continuing to hire top talent from around the world (section (2) above).²⁴ The Government has set the goal of sustaining productivity growth throughout the economy of 2-3% per year during 2010-20 (against 1% achieved in 2000-09).²⁵ This implies sustaining investment in R&D at 1% of GDP between 2012 and 2015, so as to increase Singapore's gross expenditure on R&D towards 3.5% of GDP by 2015.²⁶ As part of the national productivity effort, the Government will invest S\$16.1 billion over 2011-15 for R&D, 60% of which is expected to be public R&D, 15% private R&D, and the rest is to be open to public/private proposals (Chapter III(3)(i)).

19. The National Productivity and Continuing Education Council (NPCEC)²⁷, established in April 2010 to oversee and drive Singapore's efforts to boost productivity, has identified 16 key sectors: construction; electronics; precision engineering; transport engineering; general manufacturing; retail; food services; hotels; healthcare; information, communication, media and design; logistics and storage; and administration and support services; accountancy; financial services; process construction and maintenance; and social services.²⁸

20. On the basis of the projected higher rate of productivity growth, the authorities consider that Singapore can achieve real GDP growth rates of around 3-5% per year over the current decade.²⁹ Singapore is an open economy driven largely by external demand and its perspectives hinge, to a great extent, on the world economic conditions.³⁰ Anticipating a slowdown in the world economy, the authorities estimate that GDP growth will be about 1-3% in 2012, while the IMF predicts a real GDP growth rate of 2.7%.³¹

²⁴ The ESC notes that an increased dependence on foreign labour was not sustainable as Singapore would run up against physical and social limits. The productivity drive will require deepening skills and expertise in all areas of the economy; economic restructuring to provide room for more rapidly growing and more efficient enterprises; and supporting businesses to capture growth opportunities abroad. Its recommendations include providing tax deductions and technical assistance to foster business efficiency and innovation, developing improved financing capabilities to allow companies to expand abroad, programmes to nurture start-ups and improve SMEs' access to finance (Box III.1), and providing educational training support for Singaporeans (ESC, 2010).

²⁵ Following the launch of the first National Technology Plan, total R&D expenditure increased from S\$760 million (1% of GDP) in 1991 to about S\$6.5 billion (2% of GDP) in 2010; private sector R&D investment grew from S\$440 million to S\$3.9 billion. Singapore's development strategy has been shifting from emphasizing the use of technology to creating it, by focusing on investments in R&D and innovation (Ministry of Trade and Industry, 2010).

²⁶ Ministry of Finance (2010).

²⁷ The NPCEC comprises members from the private and public sectors as well as unions.

²⁸ The key sectors will be supported by "horizontal" themes, such as continuing education and training, and public communications.

²⁹ Ministry of Finance (2010).

³⁰ According to the IMF, one percentage fall in global growth would lead to a decline in Singapore's growth by about 1.7-1.9 percentage points. Singapore is a major financial centre and spill overs from financial instability might entail some deleveraging by foreign banks, reduced capital inflows, slowdown in credit, and a decline in financial market activity (IMF, 2012b).

³¹ IMF (2012a).

21. Other key factors influencing Singapore's economic outlook include further efforts to move into higher-value-added manufacturing (Chapter IV(1)) and services (Chapter IV(2)).³² Moreover, Singapore's growth as a regional financial centre and the fact that it has tight trade and investment links with Asian countries may have increased its exposure to other risks, including interruptions in production chains within ASEAN, financial weaknesses in the region, and economic or political instability in countries where it has made significant investments.³³

³² The longer-run challenge of moving Singapore into higher-value-added manufacturing and services is being addressed principally through investment in infrastructure, incentives to attract investment in the targeted areas, and through further regulatory reform. Singapore has developed infrastructure to support its biotechnology industry, and the industrial parks cater to special needs of targeted industries. Many of Singapore's incentives relate to R&D-related industries or services.

³³ The share of imported components in Singapore's total merchandise exports has increased over the last decades and is estimated at over 50%.