

## **The Economic Development of Singapore: A Historical Perspective**

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### **Abstract**

The transformation of the Singapore economy over the past five decades has been impressive, producing rapid economic growth and delivering extraordinary improvements in social welfare. During that period, Singapore has evolved into a developed economy with multiple engines of growth including globally competitive manufacturing clusters, one of the world's pre-eminent financial and transportation centres, and the location for regional or global headquarters of major corporations. Today, the economy remains in generally sound shape. However, the Singapore economy faces significant challenges in coming years, including disruptions caused by new technologies, changing structures of international competitiveness, and growing economic nationalism. Domestically, Singapore will need to respond to an ageing population and slowing population growth, rising costs, weak innovation capacity, and desultory productivity growth. This Analysis assesses the two main adjustment mechanisms for dealing with such challenges: the government's top-down policy interventions and the more spontaneous bottom-up adjustments by companies. It argues that Singapore's economic model may not be evolving quickly enough to allow the country to adjust successfully to its domestic and external challenges. It also argues that bolder and more rigorous changes are needed in the policy sphere to overcome these challenges.

**Keyword:** Economy, Singapore, East Indian Company, World War II, Lee's Legacy, Development

### **Introduction**

Modern Singapore was founded in 1819 by Sir Stamford Raffles (1781-1826). Raffles became a clerk for the British East India Company in 1795. He rose rapidly in the company. In 1805 he was sent to Penang and in 1811 he was made Lieutenant Governor of Java. In 1818 Raffles was made governor of Bencoolen on the island of Sumatra. Raffles believed the British should establish a base on the Straits of Melaka and in 1819 he landed on the island of

Singapore. The island consisted of swamps and jungle with a small population but Raffles realized it could be made into a useful port. At that time two men were vying to become Sultan of the Empire of Johor, which controlled Singapore. In 1812 the Sultan died and his two sons quarreled over the succession. Raffles supported the older brother Hussein and recognized him as Sultan. Raffles made a deal with him. The British East India Company was given Singapore in return for an annual payment. In 1824 the Company was given the island in return for a lump sum of money. The British established a new trading post at Singapore and it grew very rapidly.

As well as Europeans, Malays, Chinese, Indians and Arabs came to live and work there. By 1824 the population had risen to 10,000. In 1826 Singapore was joined with Melaka and Penang to form the Straits Settlements. In 1867 Singapore became a Crown Colony ruled directly by the British government rather than the East India Company. By 1870 the population of Singapore had risen to 100,000. Many grand buildings were erected in Singapore in the 19th and early 20th centuries. Among them was the Victoria Theatre & Concert Hall, which was built in 1862. Several temples were built at that time including the Thian Hock Keng Temple, which was built in 1842. The Sri Mariamman Temple was first built in 1823 but it was rebuilt in 1843. The Sri Srinivasa Perumal Temple was built in 1855. The Leong San See Temple was built in 1917. The Sakya Muni Buddha Gaya Temple was built in 1927. When the Suez canal was built in 1869 Singapore became even more important as a 'gateway' between Europe and eastern Asia.

### **Geographical Location**

Singapore, city-state located at the southern tip of the Malay Peninsula, about 85 miles (137 kilometres) north of the Equator. It consists of the diamond-shaped Singapore Island and some 60 small islets; the main island occupies all but about 18 square miles of this combined area. The main island is separated from Peninsular Malaysia to the north by Johor Strait, a narrow channel crossed by a road and rail causeway that is more than half a mile long. The southern limits of the state run through Singapore Strait, where outliers of the Riau-Lingga Archipelago—which forms a part of Indonesia—extend to within 10 miles of the main island. Singapore is the largest port in Southeast Asia and one of the busiest in the world. It owes its growth and prosperity to its focal position at the southern extremity of the Malay Peninsula, where it dominates the Strait of Malacca, which connects the Indian Ocean to the South China Sea.

### **Mythical Origins**

Recent studies have verified that lions have never roamed Singapore. However, the original legend was that a long time ago, a 14th century Sumatran prince spotted an auspicious beast upon landing on the island after a thunderstorm, which he was told was a 'lion'. Thus, the name Singapore comes from the Malay words “Singa” for lion and “Pura” for city. Prior to European settlement, the island now known as Singapore was the site of a Malay fishing village and inhabited by several hundred indigenous Orang Laut people.

### **Brief History of Singapore**

Singapore Island originally was inhabited by fishermen and pirates, and it served as an outpost for the Sumatran empire of Srīvijaya. In Javanese inscriptions and Chinese records dating to the end of the 14th century, the more-common name of the island is Tumasik, or Temasek, from the Javanese word tasek (“sea”). Rajendra Chola I, ruler of the southern Indian Chola kingdom, attacked the island in 1025, and there was another Chola raid in 1068. In 1275 the Javanese king Kertanagara probably attacked Temasek when he raided Pahang on the east coast of the peninsula. According to a Chinese traveler, Wang Dayuan, just before 1349 about 70 Tai (Siamese) war boats besieged Temasek for a month but had to withdraw. The Javanese epic poem Nāgarakṛtāgama (written 1365) includes Temasek among the conquests of the Javanese empire of Majapahit. At the end of the 14th century, Temasek fell into decay and was supplanted by Malacca (now Melaka). Yet in 1552 it was still a port of call from which St. Francis Xavier dispatched letters to Goa, and João de Barros described its busy shipping activity in his history *Décadas da Ásia* (1552–1615). Rajendra may have named the city Singapura (“Lion City”), later corrupted to Singapore, or the name may have been bestowed in the 14th century by Buddhist monks, to whom the lion was a symbolic character. According to the *Sejarah Melayu*, a Malay chronicle, the city was founded by the Srīvijayan prince Sri Tri Buana; he is said to have glimpsed a tiger, mistaken it for a lion, and thus called the settlement Singapura.

### **European Arrivals**

Portuguese explorers captured the port of Melaka (Malacca) in 1511, forcing the reigning sultan to flee south, where he established a new regime, the Johore Sultanate, that incorporated Singapura. The Portuguese burned down a trading post at the mouth of the Temasek (Singapore) River in 1613; after that, the island was largely abandoned and trading and planting activities moved south to the Riau Islands and Sumatra. However, planting

activities had returned to Temasek by the early nineteenth century. In 1818 Temasek was settled by a Malay official of the Johore Sultanate and his followers, who shared the island with several hundred indigenous tribal people and Chinese planters. The year 1819 marked the arrival of Sir Thomas Stamford Raffles, the lieutenant governor of the British enclave of Bencoolen (Bengkulu on the west coast of Sumatra) and an agent of the British East India Company, who obtained permission from the local Malay official to establish a trading post. He called it Singapore, after its ancient name, and opened the port to free trade and free immigration on the south coast of the island at the mouth of the Singapore River. At the time, Singapore had about 1,000 inhabitants. By 1827 Chinese had become the most numerous of Singapore's various ethnic groups. They came from Malacca, Penang, Riau, and other parts of the Malay Archipelago. More recent Chinese migrants came from the South China provinces of Guangdong and Fujian.

### **East India Company**

In January 1819 Sir Stamford Raffles of the English East India Company, searching for a trading site, forestalled by the Dutch at Riau, and finding the Carimon (Karimun) Islands unsuitable, landed at Singapore. He found only a few Chinese planters, some aborigines, and a few Malays and was told by the hereditary chief, the temenggong (direct ancestor of the sultans of present-day Johor, Malaysia), that the company could purchase land. The temenggong, however, was a subordinate of his cousin Abdul Rahman, sultan of Riau-Johor, who was under Dutch surveillance. Furthermore, Abdul Rahman was a younger son and not a sultan de jure. Raffles, disobeying instructions not to offend the Dutch, withdrew his own recognition of Abdul Rahman's suzerainty over Singapore and installed Abdul Rahman's elder brother, Hussein (Husain), to validate the purchase of land there on behalf of the company. The Dutch protested. In London the company's court of directors, though it decided that Raffles had contravened instructions, took no action. In 1824 an Anglo-Dutch treaty left Malaya and Singapore in the British sphere, and in August the whole of Singapore Island was ceded to the British for a monetary payment. Two years later Singapore, Penang, and Malacca (Melaka) were combined as the Straits Settlements to form an outlying residency of India. In 1830 they were reduced to a residency under Bengal, and two years later Singapore became their capital. When the East India Company lost its monopoly of the China trade (1833), it also lost its interest in Malaya. The settlements were transferred to the direct control of the governor-general of India in 1851. In 1867 they were made a crown colony under the Colonial Office in London.

### **Development of the port**

Meanwhile, Singapore's trade had suffered after 1842 from British development of a rival port, Hong Kong, as later it was to suffer from the French occupation of mainland Southeast Asia and their development of Saigon (now Ho Chi Minh City) and Haiphong in Vietnam and from the establishment of Dutch ports and shipping lines in the Dutch East Indies (present-day Indonesia). With the opening of the Suez Canal in 1869 and the advent of steamships, however, an era of prosperity began that led eventually to the construction of 3 miles (5 km) of wharves at Tanjong Pagar and finally, in 1921, a naval base. The economic growth of the Malay states after they became British protectorates enlarged transit trade. The demand of the industrial West for tin and rubber was what made Singapore one of the greatest ports in the world. After World War I, steps were taken to modernize Malayan defenses and, with the lapsing of the Anglo-Japanese alliance, to build a large naval base in Singapore.

### **World War II and the end of colonialism**

In early December 1941 the Japanese landed in northern Malaya and southern Thailand on the Malay Peninsula. They quickly gained air and naval superiority in the region, and by the end of January 1942 they had overrun the peninsula and were opposite Singapore Island. The Japanese crossed the Johor Strait on February 8, 1942, and the British command surrendered the island and city one week later. Singapore remained in Japanese hands until September 1945.

Postwar British political plans for Malaya excluded Singapore from a proposed Malayan Union and later from the Federation of Malaya, mainly because it was thought that Singapore's predominantly Chinese population would be an ethnic obstacle to common citizenship. As a separate crown colony (from 1946), Singapore made constitutional progress despite the communist insurrection in Malaya. Elected ministers and a Legislative Assembly with an elected majority assumed government responsibility in 1955, except for matters of defense and foreign policy. In 1959 the official and nominated elements were eliminated, and Singapore became self-governing, although Britain still retained control of defense and foreign policy.

### **During the first half of the twentieth century**

Singapore prospered as financial institutions, transportation, communications, and government infrastructure expanded rapidly to support the booming trade and industry of the

British Empire. Although Singapore was largely unaffected by World War I (1914–18), still it experienced the same postwar boom and depression as the rest of the world. Along with the influx of Chinese migrants over the previous decades came secret societies and kinship and place-name associations that grew to have great influence on society. Political activities surfaced in Singapore among the large Chinese population, first in the early 1900s between advocates of reform and revolution in China. Then, in the 1930s there was increased interest in developments in China, and many supported either the Chinese Communist Party or the Chinese Nationalist Party (Guomindang). The Malayan Communist Party (MCP) was established in 1930 and competed with local branches of the Guomindang. Both sides, however, strongly supported China against the rising tide of Japanese aggression. Some years earlier, in 1923, in reaction to Japan's increasing naval power, the British began building a large naval base at Singapore. It was costly and unpopular, but when completed in 1941, this "Gibraltar of the East" posed an attractive target for Japan.

Japan attacked Malaya in December 1941, and by February 1942 the Japanese had taken control of both Malaya and Singapore. They renamed Singapore Shōnan ("Light of the South") and set about dismantling the British establishment. Singapore suffered greatly during the war, first from the Japanese attack and then from Allied bombings of its harbor facilities. By the war's end, the colony was in poor shape, with a high death rate, rampant crime and corruption, and severe infrastructure damage. During the 1942–45 occupation period, a favorable view of the colonial relationship had lapsed among the local population, as it had in other British colonies, and upon the return of the British, resulted in demands for self-rule. In 1946 Singapore became a separate crown colony with a civil administration. When the Federation of Malaya was established in 1948 as a move toward self-rule, Singapore continued as a separate crown colony. The same year, the MCP launched an insurrection in Malaya and Singapore, and the British declared a State of Emergency that was to continue until 1960. The worldwide demand for tin and rubber had brought economic recovery to Singapore by this time, and the Korean War (1950–53) brought even further economic prosperity to the colony. However, strikes and student demonstrations organized by the MCP throughout the 1950s continued to arouse fears of a communist takeover in Malaya.

In 1953 a British commission recommended partial internal self-government for Singapore. In this milieu, other political parties began to form in 1954. One was the Labour Front led by David Marshall, who called for immediate independence and merger with Malaya. The same year, the People's Action Party (PAP) was established under the

leadership of Lee Kuan Yew, a Cambridge-educated lawyer. The PAP also campaigned for an end to colonialism and a merger with Malaya. Following Legislative Assembly elections in 1955, a coalition government was formed with Marshall as chief minister. As a result of further talks with London, Singapore was granted internal self-government while the British continued to control defense and foreign affairs. In 1957 Malaya was granted independence, and the next year the British Parliament elevated the status of Singapore from colony to state and provided for new local elections.

The PAP swept the elections held in May 1959, and Lee Kuan Yew was installed as the first prime minister. The PAP's strongest opponents were communists operating in both legal and illegal organizations. The most prominent was the Barisan Sosialis (Socialist Front), a left-wing party that retained favor in the 1960s and early 1970s. There also were fears that communists within the PAP would seize control of the government, but moderates led by Lee held sway. In 1962 Singaporean voters approved the PAP's merger plan with Malaya, and on September 16, 1963, Singapore joined Malaya and the former British territories on the island of Borneo—Sabah and Sarawak—to form the independent Federation of Malaysia. Only Brunei opted out of the federation

### **First Post-independence recession 1985**

In 1985, Singapore experienced its first post-independence recession. (Bercuson, K. et al. (Eds.). (1995)). Prior to the economic decline, Singapore had been enjoying a continuous GDP growth of 8.5 percent per year. Early warning signs of a slowing economy were already evident in 1984, but a booming construction industry bolstered the overall numbers. By the end of 1984, the construction market had become saturated and few projects were in the pipeline for completion. (Rigg, J. (1988, March)). Singapore was headed towards a recession. By the second quarter of 1985, Singapore posted a growth rate of -1.4 percent, which dropped to -3.5 percent in the third quarter. The sharp and sudden downturn took many by surprise. (Chan, H. C. (1986, February)). Amid news of companies going bankrupt and the retrenchment of workers, Singapore's unemployment figure rose to 4.1 percent in June 1985 from 2.9 percent in the previous four years.

The recession in Singapore was caused by a combination of both external and internal factors. There were a number of external factors. First, the economies of industrialised nations were slowing down, in particular the United States. Second, Singapore was also experiencing decreased demand for its goods and services because

regional countries were trading directly, bypassing Singapore as an entrepôt. To make matters worse, Indonesia, Thailand and the Philippines had implemented exit taxes, and Malaysia introduced a 50 percent tax on goods bought from Singapore by residents. Third, the situation was further aggravated by poor performances from Singapore's key industries in oil refining and shipbuilding and repair due to the entry of new competitors. Internally, the high operating costs attributed to high wages and rentals made Singapore less competitive in the global market, as there was no corresponding increase in productivity. The construction slump, high domestic savings rate and rigidity in the economy further weakened the economy.

To beat the recession, the government introduced a slew of cost-cutting measures such as reductions in employer contributions to the Central Provident Fund and Skills Development Fund; wage restraint for two years; rebates on personal, corporate and property taxes as well as government fees; and loans with lower interest rates. Public development spending was increased and a venture capital fund was set up. The government also adopted a policy of privatisation and deregulation to establish the private sector as the new driver for economic growth. The severity of the recession prompted Tony Tan, then the Minister for Trade and Industry, to announce the formation of an Economic Committee in March 1985. The committee, led by then Minister of State for Defence and Trade and Industry Lee Hsien Loong, was tasked to assess Singapore's economy and chart new areas of growth. The committee held its first meeting on 29 April that year and released its full report, *The Singapore Economy: New Directions*, in February the following year. The committee had proposed several economic reforms to address the causes of the recession and to steer Singapore towards the next phase of its development. The Singapore economy made a swift recovery in mid-1986. By the second quarter of that year, Singapore posted a growth of 1.2 percent, which increased to 3.8 percent in the third quarter. The recession was the first test for the second-generation leaders led by Goh Chok Tong, who was appointed First Deputy Prime Minister after the 1984 parliamentary general election.

### **Independent Singapore**

After separation from Malaysia on August 9, 1965, Singapore was forced to accept the challenge of forging a viable nation—the Republic of Singapore—on a small island with few resources beyond the determination and talent of its people. Under the leadership of Lee Kuan Yew and the PAP, the new nation met the challenge. Konfrontasi with Indonesia ended in 1966, while trade with Japan and the United States increased substantially, especially with



the latter, since Singapore became a supply center for the increasing U.S. involvement in the Second Indochina War (1954–75). In 1967 Singapore joined Brunei, Indonesia, Malaysia, the Philippines, and Thailand in forming the Association of Southeast Asian Nations (ASEAN) for the purpose of promoting regional stability, economic development, and cultural exchange. In 1968 Britain announced its decision to withdraw from its military bases in Singapore within three years. Because of defense implications and the amount of British spending (accounting for about 25 percent of the gross national product [GNP] of Singapore), this was sobering news. The government called for new elections, seeking a new mandate to proceed. Because the PAP won all 58 parliamentary seats, the government was able to pass stricter labor legislation and thus help overcome the nation's reputation for frequent labor disputes and strikes. Former British naval base workers were retrained to work in what became the Sembawang Shipyard, and eventually a major shipbuilding and ship repair center. By the 1970s, Singapore had achieved status as a world leader in shipping, air transport, and oil refining. No longer was Singapore as dependent on peninsular Malaysia for its economic prosperity.

### **Lee's Legacy**

In the 1950s, a rising star emerged in the local political scene – Lee Kuan Yew, who headed the socialist People's Action Party (PAP). Lee, a shrewd politician, is a 3rd-generation Straits-born Chinese with a law degree from Cambridge University. When the PAP won a majority of seats in the newly-formed Legislative Assembly in 1959, he became the first Singaporean to hold the title of prime minister. In 1963, the British declared Singapore, the Malay states and Sabah and Sarawak as one independent nation – Malaysia. But Singapore's membership in this union lasted only 2 years. In 1965, it was booted out of the federation, owing to disagreements on several fronts including racial issues. Left on its own, Singapore embarked on an ambitious industrialisation plan – building public housing, roads and modernising its port and telecommunications infrastructure. English was chosen as the official language, to facilitate communication between the different races, and to put the nation at the forefront of commerce. In about 25 years, by the late 1980s, Singapore had moved from a fragile and small country with no natural resources to a newly industrialised economy.

### **Modern Singapore**

In the early 20th century Singapore continued to prosper. Huge amounts of rubber and tin from the region were exported from Singapore. Meanwhile Chinese immigrants continued to arrive. Then in January 1942 the Japanese conquered Malaysia. On 15 February 1942 Singapore was forced to surrender. The Japanese called Singapore Yonan, which means Light of the South but their rule was tyrannical. Thousands of Chinese Singaporeans were executed. However Japan surrendered in August 1945 and on 5 September 1945 the British re-occupied Singapore.

However after 1945 Singapore slowly moved towards independence. In 1946 the Strait Settlements were dissolved and Singapore was separated from Malaysia. The People's Action Party was formed in 1954 and it proved to be a major force in Singaporean politics. In 1955 a new constitution was introduced. Under it 25 out of 32 members of the legislature were elected. In 1957 it was replaced by an elected 51 member legislature. The Peoples Action Party led by Lee Kuan Yew won 43 out of 51 seats. Self government was granted in 1959. Lee Kuan Yew became prime minister.

In 1963 Singapore joined with Malaysia. However the union was short lived. Singapore left in 1965 and became completely independent. From 1965 to the 1990s Singapore enjoyed rapid economic growth. By the 1990s it was an NIC (newly industrialized country) and the people had a high standard of living. However the government was authoritarian and society was strictly controlled. In 1990 Lee Kuan Yew resigned as prime minister. He was replaced by Goh Chok Tong. He introduced a more liberal regime. Today Singapore is a prosperous nation and its economy is growing steadily. Singapore is also a very busy port. Today the population of Singapore is 5.6 million.

### **Growth of Economic**

In the 1970s through the 1990s, Singapore experienced sustained economic growth. Along with Hong Kong, South Korea, and Taiwan, it was called one of the “Four Tigers” of Asian economic prosperity. Labor-intensive industries were relocated to other ASEAN nations and were replaced by high-technology industries and services. The PAP developed a stable and corruption-free government, marked by strong central development planning and social policies. Despite paternalistic and at times authoritarian governmental practices and one-party dominance, the PAP maintained its large popular mandate. A Singaporean identity, distinct from that of the Malay and Chinese, emerged as the nation increasingly integrated itself into the global economy. In 1990 Lee Kuan Yew stepped down as prime minister, and

Goh Chok Tong, the first deputy prime minister and first minister of defense, took over as part of the succession to a new generation of leaders. The Asian economic crisis of 1997–98 was not the major setback for Singapore that it was for other Southeast Asian nations; the regional economic downturn did bring fluctuating growth rates to Singapore but no serious problems. Except for oil-rich Brunei, Singapore remained the most prosperous nation in the region. After 14 years in office, in 2004 Goh stepped down in favor of Lee Hsien Loong, the minister of finance and son of Lee Kuan Yew. The elder Lee agreed to stay on as minister mentor and Goh as senior minister in order to oversee the transition of the new generation of leaders. Lee Hsien Loong was confirmed in office in a democratic election held on May 6, 2006.

Same favoured growth sectors: Companies should look to high-growth sectors in Singapore such as finance, hub services, logistics, urban solutions, healthcare, the digital economy, and advanced manufacturing, with the government taking on a more active role to support growth and innovation. Continued commitment to retaining a large manufacturing base: There will be stepped-up efforts to ensure that manufacturing in Singapore is globally competitive and maintains its share of GDP at 20 per cent over the medium term. No change to economic openness: Not surprisingly for an economy reliant on external demand and foreign investment, the CFE reiterated Singapore's commitment to economic openness in terms of trade and investment. Singapore will focus on progressing negotiations for the Regional Comprehensive Economic Partnership (RCEP) as well as fully utilising the privileges stemming from the ASEAN Economic Community (AEC) which is already in effect. No new initiatives for regional integration appear to have been contemplated.

Deregulation to spur innovation, digitisation and entrepreneurship: This was one area where some interesting policy moves were hinted at. The government will simplify the regulatory framework for venture capitalists and encourage the entry of private equity firms to provide smart and patient growth capital. It plans to design a regulatory environment supportive of innovation and risk-taking, such as through regulatory sandboxes (testing grounds for new business models not protected by current legislation) and by issuing “no action letters” assuring disrupting companies that they will not be penalised if new ideas come up against Singapore's infamously rigid regulations. The government will also act as a source of “lead demand” to support up-and-coming industries, particularly those that intersect with strategic national needs. It will set up a Global Innovation Alliance to link Singapore's institutes of higher learning and companies with overseas partners in major innovation hubs

and key demand markets. The government will also promote the adoption of digital technologies across the economy with a dedicated focus on building strong capabilities in data analytics and cybersecurity.

Scaling up and internationalising: The government to support the scaling up of high-growth local enterprises as well as the commercialization of research findings and intellectual property of research institutions. The government will make a big push for agglomeration gains through enhanced international connectivity as well as by developing districts such as Jurong and Punggol into vibrant clusters. Tax reforms: The government to maintain a broad-based, progressive, and fair tax system while remaining competitive and pro-growth. This could be an intriguing reference to a hike in the goods and services tax in the near future

## **SUMMARY**

Singapore remains one of the most market-oriented and open economies in the world and is also considered the easiest country in which to do business. Singapore is facing a number of new challenges, as well as opportunities, due to the global financial crisis and its competitiveness is being tested by low-cost economies particularly in Asia. In response, Singapore has launched a productivity drive to boost GDP growth and facilitate its transformation into a high-tech economy.

Largely as a result of the global financial crisis, in the second quarter of 2009 Singapore experienced its biggest output decline in 20 years. However, a countercyclical fiscal stimulus (S\$20.5 billion in 2009), monetary easing, strong economic fundamentals, and labour market flexibility allowed a swift recovery.

The economy grew at an annual average rate of 6% in 2007-11. Singapore experienced a surge in transport and wholesale trade activities, reflecting its role as a regional trading and logistics hub. To address the increase in income inequality and population ageing, the Government is strengthening its social safety nets (e.g. housing and healthcare). Singapore is also moderating the influx of foreign workers.

Singapore has felt the impact of the global recession primarily through the trade channel. 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. Singapore has the highest trade to GDP ratio in the world (around 400% on

average during 2008-11) reflecting its position as a major transshipment hub and the high import intensity of Singapore's exports. The share of imported components in Singapore's total merchandise exports has increased over the last decades and is estimated at over 50%.

Historically, Singapore has experienced 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 (Temasek and the Government of Singapore Investment Corporation).

Singapore is a major recipient of FDI, with annual inflows averaging almost US\$25 billion since 2007. Restrictions on foreign direct investments are maintained in a few sectors, including broadcasting/news media, legal services, and retail banking.

Singapore actively encourages investment through an array of tax and non-tax incentives. These are intended to encourage local companies to expand and internationalize production; invest in R&D, and training; and access procurement opportunities, amongst others. Incentives are also provided to encourage companies to establish their global or regional headquarters in Singapore, to promote technology and knowledge transfer, as well as to enhance Singapore's appeal as a services hub.

State ownership in key sectors of the economy (e.g. electricity, telecommunications, transport, and ports) remains substantial, including through enterprises in which Temasek holds shares.

The Government has set the goal of sustaining productivity growth throughout the economy of 2-3% per year during 2010-20 (1% was achieved in 2000-09). This objective involves a substantial increase of Singapore's gross expenditures on R&D to reach 3.5% of GDP by 2015. In order to boost productivity, 16 key sectors have been identified (construction; electronics; precision engineering; WT/TPR/S/267 Trade Policy Review Page viii 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).

Singapore remains a staunch supporter of the multilateral trading system. It participates in the Information Technology Agreement and the Plurilateral Agreement on Government Procurement. Singapore is also a signatory to the GATS protocols on telecommunications (Fourth Protocol) and financial services (Fifth Protocol). It is not a signatory to the Plurilateral Agreement on Trade in Civil Aircraft, but has observer status in the Committee. During the period under review, Singapore has not been involved in any disputes at the WTO.

Singapore continues to pursue trade liberalization through bilateral and regional agreements. Since 2008, six new FTAs have entered into force, of which four are regional agreements negotiated within the framework of ASEAN and two are bilateral agreements. It has also signed bilateral agreements, or negotiations are under way, with an additional 12 countries. Altogether Singapore's has a network of 18 regional and bilateral agreements covering 24 trading partners, mostly within the Asia-Pacific region. Singapore is also participating in the Trans-Pacific Partnership negotiations.

Together with its ASEAN partners, Singapore is continuing to work towards achieving an ASEAN Community by 2015. Steps taken to reach this objective include the ASEAN Trade in Goods Agreement (ATIGA) in 2010, and the ASEAN Comprehensive Investment Agreement (ACIA), which should enter into force in 2012.

Singapore has a very open trading regime, levying tariffs on only six tariff lines (stout and porter, beer and ale, and medicated and non-medicated samsu) subject to specific rates. These tariffs have been eliminated for imports from FTA partners. However, around 30% of Singapore's tariff lines are unbound; with bound rates ranging from 0-10%.

Singapore maintains a single window system for customs processing through which traders may submit import documentation and permits online. The single window connects to all governmental agencies from which authorizations are required: approval time is about 10 minutes in 99% of cases. Singapore Customs has introduced new, or expanded existing, initiatives to further facilitate trade. In addition, since 2011, importers have been able to apply for binding advance rulings on customs valuation.

Import prohibitions are in place mainly for health, safety, and environmental reasons, or to comply with Singapore's international (non-WTO) obligations. Imports remain prohibited for chewing gum unless for therapeutic purposes, and for used motor vehicles more than three years old. Singapore requires licences for a variety of imports, through either automatic or non-automatic procedures. Imports of rice are managed through a strategic reserve for food-security purposes, under which licenced importers are required to stockpile rice equivalent to two months of imports. No specific trade concerns have been raised in the SPS or TBT Committees regarding any of Singapore's measures.

Singapore did not take any contingency measures over the review period: it does not have safeguards legislation, it has never imposed a countervailing measure, and its last anti-dumping measures were terminated in 2003.

Singapore has five free trade zones (FTZs). There are minimal documentary requirements for goods entering FTZs and various schemes to provide for GST relief. International Enterprise (IE) Singapore WT/TPR/S/267 Page ix Singapore is responsible for trade promotion and provides financial support through a variety of programmes to assist companies to expand or develop new overseas operations. Export finance is only available through private sector institutions. However, the Government is involved in underwriting private-sector loans for overseas expansion activities and trade financing as well as trade credit insurance.

Singapore's competition regime is largely unchanged since 2008, although enforcement provisions have been strengthened and enforcement activity has increased. However, a number of areas are still exempt from competition rules.

In the area of intellectual property rights, Singapore has amended its Patents Act 2008 to implement certain measures under the "Paragraph 6 System" of the Doha Declaration on the TRIPS Agreement and Public Health to enable it to use the system as an importer.

Government procurement procedures remained unchanged over the review period. Singapore's applied regime is very open: all non-classified procurements over S\$3,000 by its 89 procuring entities (which include central government entities as well as statutory boards) are published on the Government's web portal (GeBIZ). GeBIZ is accessible to all suppliers, and no preferences or set-asides are accorded to domestic suppliers. In the 2011 negotiations

to revise the WTO Government Procurement Agreement (GPA), Singapore added executive search services to its GPA commitments. Singapore has procurement commitments in several of its bilateral FTAs; coverage of statutory boards (which comprise the bulk of government procurement) tends to be partial, and thresholds vary. The total value of non-classified procurement by the Singapore Government was S\$27.3 billion in 2011.

The manufacturing sector accounted for 21% of GDP in 2011 (24% in 2007). Singapore's industrial policy aims at maintaining a strong manufacturing base in the range of 20-25% of GDP, while achieving a further shift away from labour-intensive activities towards high-value-added, capital-intensive industries. To encourage economic restructuring, the Government has fine-tuned its labour and land use policies and is taking steps to promote productivity growth.

Services constitute the most important sector in terms of contribution to GDP (over two thirds) and total employment (about 70%). Overall, there is much diversity in Singapore's services commitments in its various FTAs. In most cases, commitments go beyond its GATS schedule/offer.

Financial institutions (foreign and local) may obtain various incentives as long as they are able to meet the qualifying criteria. Measures are being taken to increase capital adequacy requirements for banks and further enhance the resilience of the banking sector. Singapore is strengthening its position as a major regional asset-management centre, attracting well recognized firms.

Increased market liberalization and competition, including through the recently amended Telecommunications Act and Telecom Competition Code, has resulted in a significant increase in the number of telecommunication service providers. Over 1,000 telecom licences have been awarded, mainly to service-based operators. To facilitate market entry and competition, the Postal Competition Code and the Postal Services Operations Code were introduced in 2008.

Singapore remains a major international maritime centre and international air hub. Faced with intensifying competition in the region, the Government has taken steps to strengthen the competitiveness of Singapore as a one-stop-shop for all port, shipping, and maritime activities. WT/TPR/S/267 Trade Policy Review Page x Measures include streamlining the preferential corporate tax regime for the maritime transport sector, and



investments in port infrastructure. In the air transport sector, Singapore has made progress in further opening up air services, mainly bilaterally and within the framework of ASEAN.

A significant development over the review period was the partial opening-up of Singapore's domestic legal services regime and increased flexibilities for foreign and local law firms to offer legal services jointly. Licensed foreign law practices and joint-ventures between Singaporean and foreign law practices may now offer domestic corporate and commercial law services either through Singapore lawyers or through foreign lawyers who have obtained a Foreign Practitioner Certificate. Other areas of domestic law remain the exclusive preserve of Singaporean law practices and Singapore lawyers.

### **Conclusion**

The island's initial success resulted from its role as a conveniently located and duty-free entrepot for the three-way trade among China, India and the Malay archipelago. By the late 19th century, the British overloads of Singapore had extended their influence throughout the Malay peninsula and the port of Singapore acquired a rich hinterland of resources.

When the British failed to protect Singapore from Japanese occupation during World War II, they lost their credibility with Singaporeans. The aftermath sparked an outpouring of anti-colonial and nationalist sentiments. After the merger with Malaysia and the subsequent separation, the former colonial port of Singapore become a leader in global financing and trading in the 1970s. Today, it continues to wittingly maneuver its way in the world of international trade, just as it had done in the 19th century, and a large part of that success is owed to the country's pro-industrialisation policies and excellence-oriented multi-ethnic people.

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