

# 14 SINGAPORE

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## 2004: STRONG RECOVERY

Singapore's GDP grew by 8.4% in 2004 amid relatively buoyant economic conditions in regional economies and developed industrial nations. The high growth achieved compared to the 1.4% recorded for 2003, is a reflection of the robust recovery from the adverse impact of the SARS epidemic. The expansion of the economy during the year was broad based, with every sector attaining higher growth rates or a slower contraction rate.

Favourable external economic conditions led to a 20% increase in exports. Domestic exports and re-exports grew at a faster pace of 20% and 22% respectively. The good export performance was due to strong demand for both electronics and non-electronic goods. Electronic valves, data processing machines and telecommunications equipment were the major items contributing to the expansion of merchandise exports, while travel services led the list of service exports. Strong external demand was complemented by expansion of domestic demand. In contrast to a contraction in government consumption expenditure of 1.6%, private consumption expenditure surged by 6.4%, fueled by the higher take-home pay and increased propensity to purchase cars by households due to a reduction in the excise on car imports. Meanwhile, private investment expenditure registered positive growth of 13.9% after three consecutive years of contraction. This reflected a return of confidence among investors: the outflow of domestic capital to foreign destinations has somewhat stabilized.

Looking at sectoral performance, the wholesale/retail trade sector achieved the highest growth rate of 14.6% on the back of a strong recovery of tourism and buoyant domestic demand. More than 8.3 million foreign visitor arrivals were recorded at the airports and seaports in 2004, a 36% increase compared to the previous year, with notable increments coming from China, Australia and New Zealand. The upturn lifted tourism-related industries like hotels and restaurants and transport and communications to high growth rates of 12.4% and 9.1% respectively. Stable and growing regional economies also underpinned increases in external trade and business transaction. Offshore financial services, as well as trading in Asian Currency Units enabled the financial services sector to expand by 6%.

Singapore's ability to buttress itself as an important player in intra-industry trading and globalized production contributed to the resilience of the manufacturing sector to record growth of 13.6% in 2004. Biomedical manufacturing, electronics and transport engineering were the main contributors to the double digit growth rate. The promotion and development of Singapore as a logistic hub has also provided impetus for growth in the transportation sector. As one of the world's largest container ports, Singapore handled 21.3 million TEUs in 2004, a 16% increase in throughput compared to the previous year. The construction sector continued to contract, though it is reckoned that companies in the sector secured civil engineering and construction

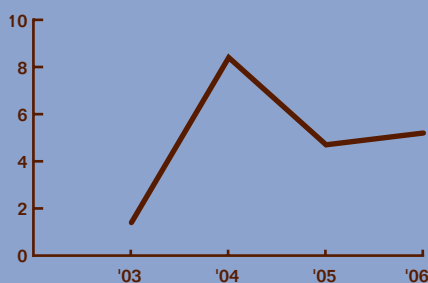
projects overseas to earn income and contribute to Singapore's GNP.

In tandem with the good GDP growth performance, employment conditions in the economy improved significantly. Total employment grew by 71,400, more than recovering the job losses totaling 35,900 over the preceding three years. Average monthly earnings grew by 3.6%, which is more than twice that recorded in the previous year. The unemployment rate declined from 4.7% in 2003 to 4% in 2004. Cost cutting, consolidation and restructuring of business plans boosted labour productivity by 6.7% and helped reduce the unit labour cost by 4%. This, in turn, helped to rein in incipient inflationary pressure. Another factor that helped to dampen price increases, despite higher oil prices, was the change in policy stance<sup>1</sup> by the Monetary Authority of Singapore to allow the Singapore currency to appreciate gradually. It appreciated by 4.1% against the US dollar over the year. The inflation rate for 2004, measured by the change in CPI, was 1.7%.

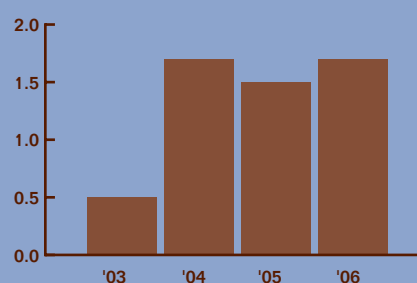
## OUTLOOK FOR 2005 AND 2006

The Singapore economy is undergoing a structural review and transformation in response to new challenges posed by globalization in technology and production as well as keen competition from dynamic emerging economies such as China and India. As Singapore is lacking in natural resources, it has to rely on strong domestic infrastructure and a workforce that needs to be honed to capitalize on the opportunities offered by the external

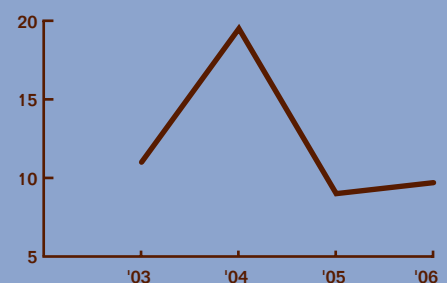
GDP GROWTH (%)



CPI INFLATION (%)



EXPORT GROWTH (%)





environment. The government has expended much effort in helping companies and workers to cope with such keen international competition and rapid technological change.

### FISCAL POLICY STANCE

Far from non-intervention, the government believes in short-term discretionary measures to even out adverse impacts caused by the international business cycle and changing economic trends. Fiscal policy is a key instrument for aggregate demand management. Broadly, Singapore's fiscal policy aims to promote sustained, non-inflationary economic growth by (1) ensuring a balanced budget over the medium term; (2) creating a fiscal environment that supports investment, entrepreneurship and job creation; (3) building capabilities for longer-term competitiveness. In the process, the domestic capabilities and business environment are continually reviewed and improved. There are several instances in the past where off-budget measures have been implemented: cutting the CPF (social security contribution) rate to lower overall business costs in the 2001 recession; providing rental rebates and special help to tourist sectors during the SARS and Avian flu outbreaks in 2003 and 2004 respectively.

Meanwhile, there are also steps being taken to help displaced workers to upgrade their skill through re-training and improving labour market information by holding job fairs and establishing job matching portals through the Internet. For three consecutive years, the government budget was 'prudently' in deficit to seed growth momentum; this is being continued in 2005.<sup>2</sup> Government surpluses in the past have been used to build and upgrade infrastructure, enhance human capital and add to the stock of foreign reserves which in turn are invested abroad to generate income.

### INFRASTRUCTURE & RESTRUCTURING FOR GROWTH

There were several initiatives undertaken in 2004 that will have impact on the economic performance of the economy in the next two years and beyond. Starting with measures to develop entrepreneurial talents, in addition to

other schemes, a grant was set up in July 2004 to foster entrepreneurship through "learning by doing." Over the next five years, \$25 million has been allocated to Institutes of Higher Learning to co-invest in their students' business ventures. Since its launch, seven student business ventures have been funded at a sum of \$290,000. The corporate tax rate has been reduced to 20%, and new tax legislation allows companies that are making losses in the current year to claim partial reimbursement of tax paid in the previous year. Under the Local Enterprise Finance Scheme (LEFS), SMEs can seek assistance in acquiring fixed productive assets and working capital loans to upgrade and expand business operations. A total of 2,967 new companies benefited from LEFS in 2004.

In anticipation of growing travel demand in Asia, the Civil Aviation Authority of Singapore (CAAS) has undertaken a series of infrastructure upgrades. Terminal 2 at Changi Airport is undergoing a \$240 million facelift and construction of a third terminal is on track to be completed by 2008. This will increase Changi's handling capacity to 64 million annually. Furthermore, runways, aero-bridges and baggage handling facilities are progressively modified to accommodate new high-passenger volume aircraft like the A380 which will begin commercial operation in 2006. Meanwhile the CAAS has restructured the franchise fees for ground-handling businesses, which will result in additional saving in business costs for operating airlines.

The competitive landscape in the air transport industry in Southeast Asia has recently been buffeted by the advent of low cost carriers (LCC) – budget airlines. Singapore is not immune to this new challenge. In 2004, a total of nine new airlines including three Singapore carriers (Valuair, Tigers Airways and Jetstar Asia) started operations at Changi Airport, while 15 new city links were added. A terminal dedicated for use by LLC operators is under construction. Currently, Singapore is discussing with Australia the implementation of an "open skies" agreement which is expected to provide travelers an even wider choice of connections

and boost air travel. Also with the aim of increasing traffic performance, the CAAS has introduced a \$40 million Growth Incentive Scheme, which will last for two years from January 2004. This performance-based scheme rewards airlines for increasing their passenger traffic to and through Changi Airport.

The Economists Intelligence Unit (EIU) ranked Singapore as the seventh most e-ready nation in the world. Third generation licences have been successfully rolled out, and market entry barriers for local leased circuits have also been lowered, reducing telecom costs to businesses and end-users. This is expected to provide a fillip to growth in the telecommunications sector. A three-year, \$10-million plan was launched in May 2004 to develop Radio Frequency Identification (RFID) technology. It aims to build five RFID-enabled supply chain clusters by 2006 by bringing together manufacturers, logistic service providers, retailers, infrastructure providers and solution providers in the high-tech aerospace, pharmaceutical and fast moving consumer goods sectors.

Pushing the manufacturing sector into high-tech activities is vital for the sector's competitiveness and as an important source of income growth and employment. The Collaborative High-Tech Manufacturing Plan introduced in March 2004 aims to improve efficiency of high-tech manufacturing industry and promote higher value-added activities. The plan targets building within five years, 10 infocomm-enabled integrated supply chains to automate the exchange of business process information which will strengthen linkages between companies in these supply chains. Similar development has occurred in the retail sector with the setting up of the Retail eSupply Chain Management Ecosystem for management of stock.

Taking into account both external influences and domestic efforts to sustain growth, the Singapore economy is expected to grow at a rate of 4.7% in 2005, and at 5.2% in 2006. The inflation rate is expected to remain low at 1.5% for 2005 and 1.7% in 2006.

<sup>1</sup> Policy stance before 1 April 2004: a 0% appreciation path for the S\$ nominal effective exchange rate.

<sup>2</sup> The budget deficit as a percentage of GDP was 1.1% in 2002, 1.6% in 2003 and 0.8% in 2004. For 2005, it is projected to be 0.4% of GDP.