SINGAPORE

A Mini-State with Vital Stake In Free Trade

By Keiichi Oguro

A prosperous regional center

Visitors to Singapore are impressed by the huge scale and the efficient operation of the Changi airport. This air terminal, which opened in July 1981, was constructed on reclaimed land to maintain Singapore's status as a center for commercial air traffic in an age of rapid growth of civil aviation symbolized by the advent of jumbo jets.

The highway extending from the terminal to the city limits is lined with verdant trees, a fitting introduction to an island nation which has conferred upon itself the title of "garden city." Singapore is justly proud of its demonstrated ability to draw up and carry out a development plan that makes the building of the infrastructure—an airport in this case—fully compatible with the beautification of the natural environment.

There is also a great deal of greenery in the central part of the city, with all the sidewalks lined with trees. The well-managed hotels guarantee visitors a quiet night's sleep. Anyone who throws away a cigarette butt is liable to a fine of S$500. Pointing a gun at someone with the intent to kill can bring the death sentence.

These strict punitive provisions have much to do with the cleanliness and safety of Singapore's streets. Sidewalks are paved and provide pedestrians with adequate protection from speeding cars—something not found in other Asian capitals. The tap water is sanitary, making Singapore, and perhaps Kuala Lumpur, the only cities in Southeast Asia where one can drink directly from the tap without fear of diarrhea.

Singapore also maintains an impressive system of urban services, as is evidenced by the ready availability of taxis, telephones and telexes. The quality of these services is recognized by residents of neighboring countries, including businessmen and their families. Singapore is a favored resort where they can enjoy vacations and get thorough medical checkups. The shopping centers, as befits a city that has inherited the traditions of a free trade port, overflow with world-famous brands, attracting millions of tourists from abroad. In 1982 alone, 2,957,000 tourists came to Singapore, providing a major income source to this island nation. By way of comparison, Singapore's own population stood at 2,472,000 the same year.

Photo: PPS

Singapore: "the garden city"

A mini-state built on a small island covering only 618km², Singapore must import virtually everything it needs including food and even water. It thus depends on foreign supply sources for its very survival. To earn the necessary foreign exchange and secure its economic well-being, it must promote trade and tourism. The manufacturing industry, which grew rapidly in the 1960s and 1970s, was inevitably export-oriented from its inception. The small domestic market rules out, both in theory and practice, the idea of protecting infant industries. The way to prosperity for Singapore lies in making maximum use of its geographical advantages as a traffic center and enhancing its value to foreign enterprises and individuals.

Singapore's economic growth fortunately coincided with the rapid expansion and development of the world economy. Many foreign businesses invested actively in the city state, attracted by its location and its relatively cheap labor. Of course, this influx of foreign capital was also prompted in large measure by improvements in the local investment climate. Specifically, Singapore adopted various measures to encourage foreign capital investment. It expanded and improved the infrastructure and urban services, and created an enduring climate of political stability.

Today Singapore is home to more than 1,000 foreign-owned companies (joint ventures with a foreign interest of more than 50%). Exports accounted for 70.5% of the total output of these enterprises in 1982. This clearly shows how foreign investment has enabled Singapore to achieve high rates of export-led economic growth.

Singapore has the world's third largest oil refining capacity (1.1 million barrels a day of refined products) after Rotterdam and Houston. This is further testimonial to Singapore's geographical advantage and political stability. However, the industry's future does not warrant optimism, as will be explained in more detail later.

It was also fortunate for Singapore that it was able to join a regional grouping—the Association of Southeast Asian Nations (ASEAN)—and maintain friendly relations with its neighbors. Singapore has benefited materially from the rapid economic growth of other ASEAN member nations. The rapid expansion of their economies has added not only to Singapore's geographical value but also to its role as a regional commercial and financial center.

Singapore's per capita GNP reached S$12,290 (U.S.$5,740) in 1982, the second highest in Asia after Japan. The country has come a long way since it gained political independence from Malaysia in August 1965, when rapid population growth raised fears about the limits of traditional intermediary trade for domestic job creation. Singapore was compelled to achieve real autonomy as a viable city state. Under the strong leadership of Prime Minister Lee Kuan Yew it pursued economic efficiency and competition, even if the policies it adopted at times seemed overly aggressive. With but few exceptions Singapore has followed realistic development policies that emphasize the utilization of foreign capital.

Concern over protectionism

Singapore's exports in 1982 were worth S$44,470 million, far more than its nominal GDP for the same year of S$31,350 million. This is yet another indication of the overwhelmingly weight exports carry in the country's economy.

GDP grew by 6.3% in 1982 after adjustment for inflation—a remarkable performance at a time when the world economy was locked in a prolonged recession. However, this robust growth was primarily supported by domestic demand as the global slump made itself felt in the export sector beginning in 1981. In the decade from 1972 to 1981, Singapore recorded average annual real GDP growth of 8.9%. The growth rate hit bottom at 4% in 1975, during the deep worldwide recession brought on by the first oil crisis of 1973–74. Over the succeeding years it posted steady growth, hitting 9.3% in 1979, 10.2% in 1980 and 9.9% in 1981. In the first half of 1981 GDP expanded at an annual rate of 10.3%, though the rate slowed to 8.8% in the second half. The slowdown became even more pronounced in 1982.

The slump in exports reversed for the first time in 11 years the relationship between domestic demand and external demand in terms of contribution to real growth in GDP. Domestic demand's contribution reached 56% in 1982, against 44% for external demand. By contrast, the ratio was 28% for domestic demand and 72% for external demand in 1980, and 43% and 57% respectively in 1981.

The growth rate dropped below year-before levels in all GDP component sectors except the construction industry in 1982. Manufacturing, the second largest sector after trade, registered a negative growth rate of 5.6%, sending its contribution to real GDP growth into the red as well—minus 17%, or most of the slowdown in GDP growth. A slump in export trade has an immediate impact on Singapore's manufacturing because more than 60% of manufactures are for sale abroad.

Among this sector, those which have a major impact on the GDP growth rate include electronics, electric machinery and appliances, shipbuilding and repair services. However, the most conspicuous drop in the growth rate occurred in labor-intensive industries such as textiles, lumber and plywood.

Exports in 1982 increased by 0.4% over the year before to S$44,473 million, while imports expanded by 3% to S$60,245 million. As a result, the trade deficit widened to S$15,772 million, up 13% over a year earlier. Singapore's foreign trade is in chronic deficit.

The total value of exports and imports for 1982 at S$104,700 million was up only 2% over the previous year, indicating that growth in two-way trade came to a near standstill. This is in sharp contrast to 1976–81, when trade grew at an average annual rate of 21.4%. In particular, exports of locally manufactured goods dropped 1%, whereas re-exports, accounting for one-third of total exports, increased by 3.2% to S$15,647 million after a 5.2% decline in 1981. Among specific products, radios and televisions were down 19.9% (S$1,744 million), while ships and oil rigs fell 20.8% (S$765 million).

One reason for the export slump was protectionist policies in the United States and the European Community which, together with the economic recession these regions are experiencing, have sharply reduced their purchases from Singapore. In addition, exports under the Generalized System of Preferences (GSP) fell by 1% in 1982, compared with a 15% increase for the previous year. The share of these exports in total local exports shrank from 9% to 8%. The EC nations impose import quotas on such products as plywood and radios, while the United States has removed Singapore-made refrigerator compressors from its list of tariff preferences.

The government of Singapore is deeply concerned about the rise of protectionism in the industrialized nations, a development which threatens to retard or even halt the expansion of international trade. Singapore has good reason to be worried. Not only does it depend heavily on exports, but it also benefits directly from the expanded exchanges of goods, services and tourism that accompany trade growth.

Reorganizing the manufacturing industry

As stated above, the slowdown in exports was caused primarily by the economic slump in the industrialized nations. The relative strength of the Singapore dollar and rapid wage increases also contributed to the slowdown.

The appreciation of the Singapore dollar has also had some beneficial effects, however. For one thing, Singapore's heavy dependence on imports means that any rise in the exchange value of the Singapore dollar is a boon to imports. The Singapore dollar's continuing strength reflects government policy initiatives to keep local interest rates in line with the high levels prevailing internationally as a way of developing the Asian dollar market. Gov-

Singapore's Gross Domestic Product by Industry

	1960	1970	1981	1982	Increase over the previous year (%)
Agriculture & fishery	4.1	2.5	1.2	1.0	-6.3
Quarrying	0.4	0.4	0.4	0.5	26.5
Manufacturing	13.2	19.7	23.9	21.2	-5.6
Utilities	2.5	2.8	2.9	2.8	4.8
Construction	3.7	6.7	5.4	6.9	36.2
Trade	33.6	30.1	24.8	24.4	4.7
Transport & communication	14.0	11.6	19.9	20.7	10.8
Financial business services	11.7	14.0	19.3	20.8	14.4
Other services	18.5	14.2	10.6	10.9	9.2
GDP (S$ million)	**2,122.3**	**5,107.0**	**13,369.3**	**14,217.9**	**6.3**

Note: Real GDP based on 1968 factor price. Figures for 1982 are provisional.
Source: Economic Survey of Singapore 1982

Photo: PPS

Merlion statue, symbol of Singapore

ernment policy has also had an impact on wages.

Wage levels in Singapore rose rapidly throughout the 1970s as the economy and industry developed. This led to a decline in the competitiveness of labor-intensive industries, while the citizens of Singapore came to avoid heavy labor and dirty work. For example, workers from Malaysia and other nations now account for 80% of Singapore's 120,000 construction workers.

In June 1979 the National Wage Council (NWC) worked out a three-year program to raise wages. As a result of the large increases recommended by the council, wages rose by an average 20% a year in 1979–81. This wage policy was clearly aimed at phasing out labor-intensive industries.

In March 1980 the government announced an economic development plan for the 1980s which identifies as major challenges to Singapore's economy (1) slower economic growth in the industrialized nations, (2) increases in the price of oil, and (3) intensified competition from the Republic of Korea, Taiwan and Hong Kong. The predicted higher oil prices fortunately have not come to pass, but the problems of reduced growth in developed countries and growing competition from other developing nations remain. Singapore has no alternative but to improve the quality of labor, raise productivity and develop high-tech, high-added-value urban industries in anticipation of the deterioration in the export environment that is likely to result from the growth of protectionism. The economic development plan envisions manufacturing as the leading growth industry of the 1980s, followed by four other sectors—trade, tourism, transportation, and communications and knowledge-intensive services (computers, the financial industry, medicine and consulting).

The manufacturing sector accounted for 21.2% of GDP in 1982, employing 25% of the working population. As already described, this sector exports more than 60% of its output. Oil refining accounts for the largest share of manufacturing output at 40.3% followed by electric and electronic appliances and instruments at 16.7%.

The oil refining industry was operating at only 75% capacity in the first quarter of 1983 compared to 85% in 1981. Current use levels are believed to be even lower. One major reason for this is the softening of the oil market. Another is that refining orders from Indonesia have decreased in parallel with progress in the construction of refining facilities in that country. Similar orders from Malaysia are expected to end when a Malaysian refinery now in the planning stage comes on stream in the near future.

The economic plan described earlier is designed to raise manufacturing's share of GDP to 31% by 1990, with high-added-value components, service and supporting industries for the aircraft and industrial machinery providing the main impetus. This is supposed to raise per capita GNP to about the level attained in Japan in 1980. Foreign businesses continue to invest actively in high-added-value industries, notably industrial robots and computer-related equipment. However, rapid structural change of the kind seen in the 1970s is now difficult to carry out.

Limited options

Given its resource constraints, Singapore does not have many economic policy options. Yet both the government and businesses have proven ability to respond effectively to the changing requirements of the times within policy limits.

In 1983 Singapore's economy will likely grow at a rate of more than 4%, in part because of rapid expansion in exports of electric and electronic products to the United States. However, growth overall will be supported mainly by domestic demand generated by public investment, as was also the case in 1982. The government has launched a S$5 billion program to construct a mass rapid transit system, and private sector projects to build office buildings, hotels, shopping centers and other facilities are being actively promoted.

These private projects reflect a continued firm belief in Singapore's potential as a center of commerce, trade, and finance. In fact, financial and business services have made the largest contribution to GDP growth since 1980, reaching 36% in 1982.

However, revived export demand and economic recovery in neighboring countries are still essential if there is to be a full-fledged economic recovery in Singapore. The trade sector, which holds the greatest weight in the GDP, recorded growth of only 4.7% in 1982. The reason is that hotels, restaurants and stores suffered as the rate of increase in the number of tourists dropped to 4.5% from 10.4% in 1981. Nor have the first four months of 1983 been any more encouraging. The number of visitors from Indonesia, for example, fell by 33,200 from the same period a year before due to a new 150,000 rupiah per head exit tax which Indonesia introduced in November 1982. Singapore's retail businesses were hard hit, as Indonesians are their best customers.

Singapore must try to further develop its manufacturing sector with priority given to products of higher value-added. At the same time it should strengthen its international competitiveness by raising productivity in all sectors. This must be achieved, however, within the context of relatively high wage levels.

For the time being, the surge in construction is expected to be enough to support domestic economic activity. Over the long run, however, expansion of exports is essential, although this depends ultimately on the course of economic recovery in the developed countries. Export growth in neighboring countries and increased tourism are also indispensable for the steady and sustained growth of Singapore's economy. ●

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