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The Economy

Singapore

May 1973

NATIONAL INTELLIGENCE SURVEY

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NATIONAL INTELLIGENCE SURVEY PUBLICATIONS

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This chapter was prepared for the NIS by the Central Intelligence Agency. Research was substantially completed by December 1972.

SINGAPORE

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This General Survey supersedes the one dated July 1968, copies of which should be destroyed.

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FIGURES

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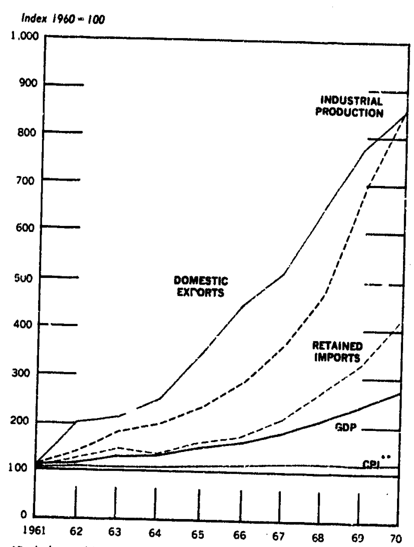
The Economy

A. Economic appraisal (U/OU)

Singapore's economy is among the most dynamic in the world. Its high (9%) annual real economic growth rate during 1961-67 accelerated to 14% during 1968-71 (Figure 1). In 1971, gross domestic product (GDP) reached $2.3 billion,[1] providing a per capita GDP of almost $1,100, one of the highest in Asia. The extraordinary economic growth since the late 1960's is largely due to a booming manufacturing sector.

[1]All dollar values in this chapter are in terms of U.S. dollars. In converting Singapore dollars to U.S. values, yearend rates have been used.



*Excluding rubber processing.
**Consumer price index.

FIGURE 1. Index of economic indicators (U/OU)

Benefiting from a hard-working labor force, a well-developed infrastructure, and a stable government which has provided a variety of incentives to investors, manufacturing output has expanded rapidly. Most of the new industries have been export-oriented and their foreign sales increased about 24% annually during 1964-70. At the same time, Singapore has improved its position as the major commercial center for Southeast Asia and as the most important port on the sealanes between the Far East and Europe. All of these achievements have come about with little domestic inflation and without the benefit of any significant foreign economic aid.

The island republic was faced with a number of serious economic problems in the mid- and late 1960's. The annual population growth was 2.5% and the rate of unemployment was officially estimated at over 9%. About one-third of the population lived in urban slums or squatter villages in the city's suburbs. Moreover, when the British announced in 1968 their intention to withdraw their relatively large military contingent by 1971, Singapore feared even greater unemployment and the loss of substantial revenue from British military expenditures. In an effort to mitigate the effect of British withdrawal and provide jobs for the unemployed, the government encouraged the growth of manufacturing. This program has been remarkably successful, and life for the country's 2 million inhabitants has been substantially improved. Per capita GDP has increased by two-thirds since 1965, while unemployment has fallen dramatically. In fact, Singapore now must import foreign labor to fill skilled jobs. Total population growth was reduced to only 1.7% by 1971, and more than one-third of the population now live in modern public housing projects.

Singapore's economic progress has depended basically on its human skills and its strategically located, excellent harbor. The small island has few other material resources and therefore must import most of its foodstuffs, raw materials, fuels and even water. Singapore has long been a leading entrepot center, processing rubber, petroleum, timber, coffee, spices, copra, and other primary products of Southeast Asian countries for reexport and serving as a distribution center for manufactured goods, foodstuffs, machinery, and textiles produced in industrial countries.

Singapore is one of the busiest ports in the world, vying with New York for third place in terms of gross tonnage handled. Cargo-handling facilities have improved considerably; the volume of tonnage handled rose 125% between 1966 and 1971, when it reached 48 million freight tons. The country profits from having the only harbor between the Middle East and Japan with drydocks capable of handling large ships. In mid-1972 Singapore completed a major container terminal, the only one in Southeast Asia, and a second terminal is already under construction. To facilitate its commerce, ancillary facilities such as banking, insurance, storage, transportation, and communications have been highly developed.

The service-based economy also has benefited from expanding tourism and nearby oil exploration. Tourist spending quadrupled between 1965 and 1971, when it reached $105 million. These gains alone have so far more than offset the loss of revenue caused by the British withdrawal of forces. The island's well-developed economic infrastructure readily meets the needs of petroleum companies, which have been rapidly expanding their prospecting operations in Malaysia and Indonesia. Supply bases are being established and ship repair and construction are being expanded. Many foreign oil workers and their families have settled in Singapore, bringing with them considerable spending power.

Singapore's highly sophisticated financial sector has been a major contributor to overall economic expansion. Although still far behind, it has been gaining on Hong Kong as the Asian financial center. Since 1968 the government has allowed some banks to hold tax-free deposits (Hong Kong does not), enabling Singapore to establish an Asian dollar market. Deposits have grown spectacularly—from $30 million at the end of 1968 to about $2.1 billion in 1972. In addition, Singapore's free gold market prices are lower than those in Hong Kong. The country's well-organized and highly liquid financial institutions can easily accommodate both public and private needs for development spending.

Although trade and services have been the traditional pillars of the economy, the most dynamic sector is industry. The value of manufacturing output has increased about five times since 1960. Since the local market is small, most new plants are export-oriented. Despite the fact that there is no domestic crude oil production, Singapore has become the regional refining center because of its having well-established trading and service facilities and a well-trained labor force. The petroleum industry now accounts for the largest share of industrial investment in Singapore, and in terms of value added, it surpasses all other industries.

Foreign investment in more labor-intensive industries is becoming increasingly important. In 1970, firms such as Phillips of Holland, Plessey of the United Kingdom, and General Electric of the United States decided to set up new factories in Singapore to produce various electronic components. *Rollei Werke* of West Germany is transferring its entire production of 35-mm cameras to Singapore to better compete with Japan. In addition, the output of textiles, pharmaceuticals, and engineering goods is growing rapidly.

As a result of the growth and structural changes that took place in the economy during the 1960's, the composition of foreign trade has changed considerably. Petroleum is now the most important single trade item, accounting for nearly 60% of domestic exports and 17% of retained imports in 1970, while imports of machinery and equipment required by the expanding manufacturing sector rose from less than 10% of retained imports in 1960 to 26% in 1970. Entrepot trade, although increasing in volume, declined somewhat in importance, falling from about 60% of total recorded trade in 1965 to 40% in 1970, when it contributed some 11% of Singapore's GDP. Exports of domestic origin doubled during 1966-70; they accounted for 38% of total exports in 1970, compared with 25% in 1965.

In 1970, Singapore had a trade deficit of $414 million, which was more than double the 1966 deficit. This was offset in part by a surplus on the services account, which reduced the deficit on the current account to $136 million. The current account deficit, however, was more than offset by long term private capital inflows, which increased from only $18 million in 1966 to $206 million in 1970. The overall balance of payments surplus reached $151 million in 1970, about the same as in 1969. Foreign exchange reserves amounted to $1.36 billion at the end of 1970.

Singapore's economy is likely to remain one of the most prosperous in Asia. It has a stable government, a resourceful business community, and a well-disciplined labor force which is adaptable to new methods of production. Official policies have promoted investment by providing fiscal incentives, imposing indirect wage controls, and establishing self-contained industrial estates. Extensive programs to train workers in sophisticated technical skills are being implemented and will eventually relieve the shortage of skilled labor. Continuing industrial development, the large inflow of foreign private capital, and increasing earnings from tourism should maintain the high economic growth rate.

B. Structure of the economy

The structure of the Singapore economy has been changing significantly during the past decade. The most dramatic change has been the growth of the manufacturing sector from 13.6% of GDP in 1965 to nearly 21% in 1970 (Figure 2). This coincides with a decline in the services sector, reflecting in part the withdrawal of British forces. The change also reflects in part a structural change in national accounting under which shipbuilding and ship repair were transferred from the services sector to the manufacturing sector in the late 1960's. The agricultural sector, always relatively unimportant in Singapore, continued its decline from 4.6% of GDP in 1965 to less than 3% in 1970. Construction increased from 4.6% to more than 5% of GDP during the same period, largely because of the extensive building of public housing. Entrepot trade, traditionally the lifeblood of the economy, has not expanded as rapidly as other sectors, and its share of GDP rose only from about 10% in 1965 to about 11.4% in 1970. Domestic trade increased in importance as its share of GDP rose from 15% to 19% during the same period. (U/OU)

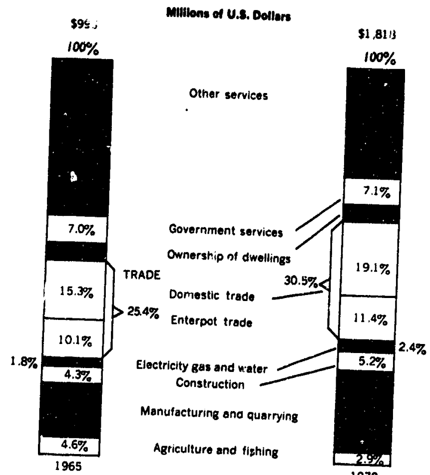


FIGURE 2. GDP, by sector of origin (U/OU)

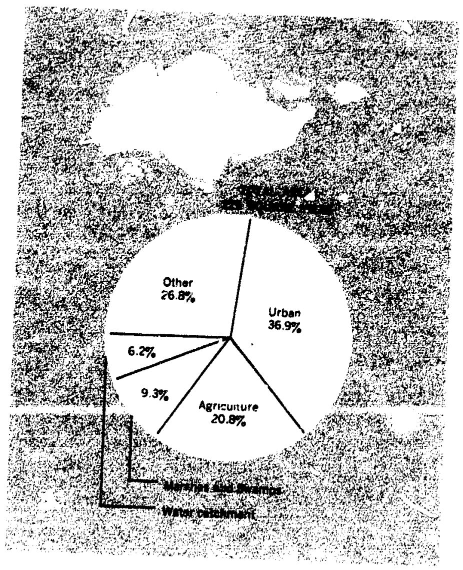


FIGURE 3. Land use, 1972 (U/OU)

1. Agriculture, fisheries, and forestry (U/OU)

a. Agriculture

Agriculture makes a relatively insignificant contribution to the Singapore economy, largely because the amount of land available for cultivation is so limited. Agriculture and fishing account for less than 3% of GDP, and for only 4% of Singapore's domestic exports. Less than 10% of the population, one of the lowest shares in Asia, is dependent on agriculture or fishing for a livelihood.

About one-fifth (less than 30,000 acres) of Singapore's total land area is devoted to agriculture (Figure 3). About one-third of the cultivated acreage is planted to rubber, while coconuts, fruits, and vegetables each account for about one-fifth. Tobacco, fodder grass, and flowers occupy the remaining cultivated acreage. Although rice is the principal food consumed, none is grown domestically, and all the island's requirements must be satisfied through imports. In 1971, rice imports were 272,600 metric tons, of which 45,900 tons were destined for reexport.

Most Singapore farmers are engaged in the intensive, small-scale cultivation of vegetables and other food crops, while a small number of estates produce rubber and coconuts. Tobacco is rotated with vegetables as a cash crop. Tropical fruits such as pineapples, bananas, and papayas are also grown. Yields are high because of the intensive methods of cultivation employed. There has been virtually no growth in crop production, however, due to the declining acreage allotted to agriculture as the urban complex encroaches on agricultural land.

Singapore's production of some 41,500 metric tons of vegetables and root crops meets only about one-third of domestic requirements; the remainder must be imported (Figure 4). Local fruit production also meets only a fraction of domestic needs, and Singapore depends heavily on fruit imported from Australia and Malaysia. About 4,400 metric tons of fruit, 3,000 tons of coconuts and 2,000 tons of rubber were produced in 1970. Singapore has been promoting the export of cut orchids, which in 1970 were valued at $400,000, or three times the value in 1965.

Animal husbandry is one of the major components of local agriculture. In 1970 livestock production was valued at about $230 million. Livestock are generally raised by smallholders. Singapore has been more than self-sufficient in pork, poultry, and eggs since the mid-1960's and exports its surplus almost entirely to Malaysia. Singapore is a net importer of beef. Two abattoir and quarantine stations provide the necessary slaughtering facilities.

b. Fishing

Singapore's fishing industry has been declining, largely because of the decreasing catch from nearby waters, which has been due to water pollution and land reclamation projects. The number of licensed fishermen declined from about 4,000 in the mid-1960's to 1,919 in 1970, while the fish catch amounted to only 14,000 metric tons in 1971, down from more than 18,000 tons in 1967. Local production provides only 20% to 25% of domestic needs, and in 1971 fish imports amounted to nearly 54,000 metric tons. There is little prospect for improvement of production from inland waters, and further efforts to bolster the industry will focus on offshore, deep-sea commercial fishing. For example, in 1970 three processing plants and an ice factory were established at the Jurong fishing port, which also serves as a fish marketing and distribution center. In 1969, facilities for training offshore and deep-sea fishermen and for investigating new fishing grounds were established at Changi.

FIGURE 4. Agricultural production (U/OU)
(Metric tons)

	1960	1965	1970
Rubber	2,365	1,500	2,000
Fruits	3,260	3,790	4,430
Vegetables	29,900	31,850	30,000
Root crops	9,450	9,100	11,500
Tobacco	441	500	482

c. Forestry

No forestry production takes place in Singapore, but some entrepot trade in forestry products is carried on.

2. Fuels and power (C)

a. Fuels

Singapore has almost no indigenous fuel, except for limited quantities of fuelwood for household use, and it is heavily dependent on imported petroleum to meet its energy requirements. Prior to 1964, most of the petroleum imported was for reexport without refining; since then, Singapore has greatly increased its refining capacity. In 1972 there were four producing refineries with a total capacity of about 380,000 barrels per day (b.p.d.), two hydrocarbon solvent plants, and one lube plant, representing a total investment of some $250 million. Three of the four refineries are being expanded, and a fifth is under construction. Total capacity after completion of all projects will be in excess of 800,000 b.p.d. and total investment will amount to some $450 million.

Singapore's oldest and largest refinery complex is located on the offshore island of Pulau Bukum (Figure 5). This complex, owned and operated by Royal Dutch Shell, has a capacity of 250,000 b.p.d. which makes it one of the largest refineries in the Far East. Plans call for expanding capacity to 350,000 b.p.d. by 1974. In 1971 Esso completed an 81,000 b.p.d. refinery on the island of Pulau Ayer Chawan. This refinery represents the largest single U.S. investment in Singapore. Expansion plans call for expanding capacity to 231,000 b.p.d. by the mid- or late 1970's. Mobil, one of the first U.S. firms to settle in the Jurong Industrial Estate, has a refinery with a designed capacity of 18,000 b.p.d., but production has been running at 27,000 b.p.d. (Figure 6). British Petroleum operates a 25,000 b.p.d. refinery at Pasar Panjang, where limited space will restrict further expansion. The Singapore Petroleum Company, a joint venture of two U.S. firms and the Development Bank of Singapore, is constructing a 65,000 b.p.d. refinery which is scheduled to begin production in 1973.

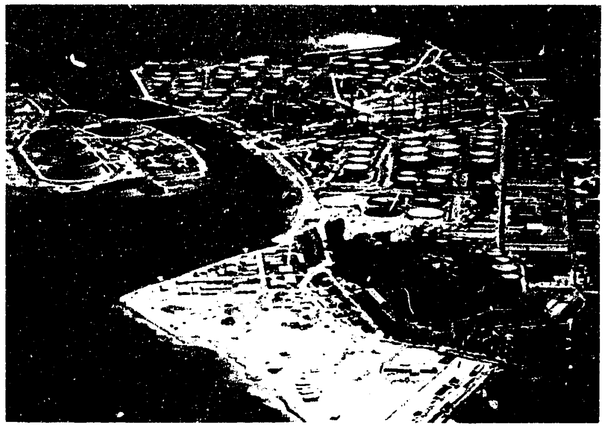


FIGURE 5. Royal Dutch Shell's petroleum refinery complex on Pulau Bukum, with causeway to additional facilities on Pulau Bukum Kechil ("Little Bukum Island") (U/OU)

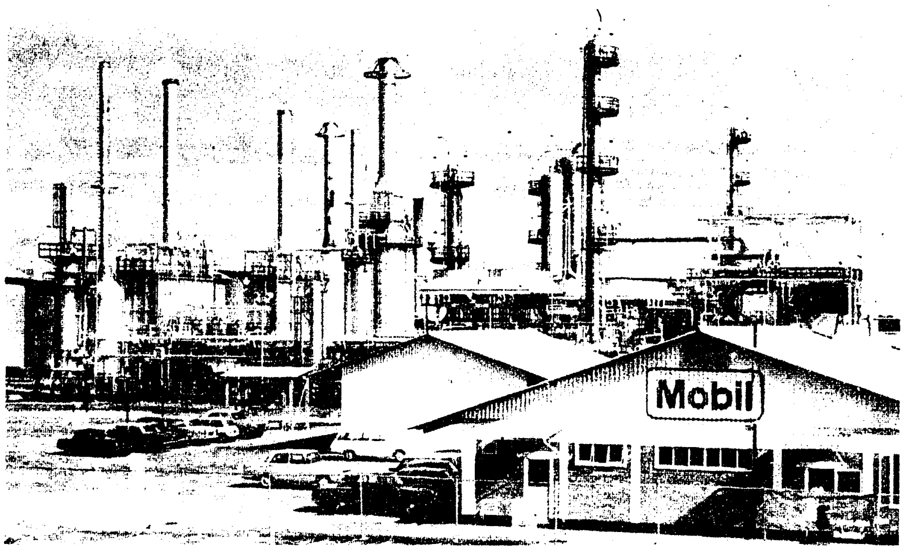


FIGURE 6. The Mobil refinery at Jurong; capacity is scheduled to be increased to 150,000 b.p.d. by the mid-1970's (U/OU)

b. *Electric power*

The electric power industry in Singapore is one of the best developed in Southeast Asia. All power facilities are owned by the government and operated by the Electricity Department of the Public Utilities Board. Total installed capacity reached 706,000 kilowatts (kw.) at the end of 1971, and production during the year amounted to 2,585 million kilowatt-hours (kw.-hr.). Per capita production of electricity of 1,247 kw.-hr. in 1971 was the highest in Southeast Asia and more than three times that of West Malaysia. The entire installed capacity is contained in four plants, including three conventional oil-fired power plants—Pasir Panjang B and Jurong, with a capacity of 240,000 kw., and Pasir Panjang A, with a capacity of 177,000 kw.—and one gas turbine plant, St. James, with a capacity of 49,000 kw.

Electricity is distributed throughout the island by a primary system composed of 66-kilovolt (kv.) and 22-kv. lines, which serve the principal urban and industrial users. This system feeds a secondary 6.6-kv. network, which is designed to supply rural areas and other smaller load centers. The 66-kv. system was extended in 1970 by submarine cable to petroleum refineries located on two smaller islands, Pulan Bukom and Pulau Ayer Chawan.

Consumption of electric power has been growing rapidly, averaging 16.5% annually since the mid-1960's, due mainly to expanding manufacturing and commercial activities. Presently, more than two-thirds of the available electricity is consumed by industrial and commercial users, having risen from about one-half in 1966. Almost all of the remaining electric power is consumed by domestic users, with a small amount used for public lighting.

To meet anticipated demand, the Electricity Department has formulated a long-range development plan extending to the year 1981. Capacity is to be increased by 1,720,000 kw. by expanding the Jurong Plant by 360,000 kw. during 1972-73 and by constructing a new thermal power plant of 1,360,000 kw. at Senoko in the northern part of the island. The 120,000 kw. first stage of the Senoko Plant is scheduled to become operational in 1974, but full capacity will not be attained until 1981. Simultaneously, the existing 66-kv. and 22-kv. transmission grids will be expanded considerably. In addition, the country's first 230-kv. lines will be built to ease the load on lower voltage networks and to provide high capacity links between major power plants. The first expansion stage of transmission facilities will be financed in part by a $15.5 million loan from the Asian Development Bank.

3. Metals and minerals (U/OU)

Singapore has virtually no mineral resources, and mining activity is limited to obtaining raw materials for the manufacture of bricks, blocks, and tiles and the quarrying of granite and of coral (for lime production). There are a few small cement plants which together produce some 600,000 metric tons of cement annually. Although mineral production is negligible, Singapore does engage in entrepot trade in minerals, serving as a transshipping and warehousing center for tin, iron, and aluminum ores, and for steel and other finished metal products.

Singapore has a small but growing steel industry, consisting of scrap processing and rolling facilities, as well as a number of small steel pipe mills and galvanizing plants. Scrap and ingots are imported mainly from Malaysia and Australia. National Iron and Steel Mills (NISM), the country's largest steel mill, produces some 150,000 metric tons annually. NISM recently installed its fifth furnace, which will nearly double current production, and capacity will eventually be raised to between 300,000 and [illegible],000 tons. In addition to its three bar mills, NISM has purchased a wire rod mill with a total annual capacity of some 200,000 metric tons of steel wire rods, about one-fourth more than the combined production of its present three mills.

4. Manufacturing and construction (U/OU)

a. *Manufacturing*

Manufacturing is the most dynamic sector of the Singapore economy. During 1961-70 it grew by about 20% annually, and in 1971 it accounted for 23% of GDP, compared to 9% in 1960. The government promoted industrial development in the mid- and late 1960's to offset the impact of the withdrawal of British troops and ships and the slowing growth rate of the entrepot trade. The government's active support of industrialization, the high degree of political stability, the energetic labor force, and the well-developed infrastructure and commercial facilities in comparison with other Southeast Asian countries have all contributed to a favorable climate for investment and growth.

Through the mid-1960's, industrialization was encouraged to reduce unemployment, and emphasis was placed on establishing labor-intensive light industries that produced largely for the domestic market. Since 1968, however, emphasis has been shifted to export-oriented industries, financed and managed primarily by international firms that can provide the necessary capital and technological skills.

Measures used to promote industrialization include incentives to favored industries, which are commonly referred to as pioneer industries. Among other benefits, pioneer firms receive full exemption from the 40% corporation tax for a 5-year period after production begins. By the end of 1970, 271 pioneer firms were in production and another 34 were scheduled to be operating in the next year or so. Total capital of the producing firms was about $220 million of which about half was foreign capital. Pioneer firms employed more than 50.000 people and the value of output exceeded $594 million in 1970, more than four times the level in 1966. Comprising only 15% of total manufacturing firms in Singapore, pioneer industries account for some 40% of total manufacturing output and 39% of total manufacturing employment.

About half of the country's pioneer firms are located in Jurong, the largest of the industrial estates. In 1972 it encompassed about 6,600 acres, of which about one-third was for industrial use and the remainder for residences, the town center, and recreational areas. When development is completed, Jurong is expected to cover an area of 12,000 acres, with about 500 factories and 70,000 workers. A new industrial estate is being constructed at Sembawang, a former British navy installation. In addition to Jurong and Sembawang, there are 11 smaller industrial estates which, in contrast with the two larger estates, have no direct access to the sea and are primarily for light industries.

The structure of the manufacturing sector has shifted dramatically since 1960. For example, the food processing industry was the country's major industry in terms of output and employment in 1960, accounting for 33% of total manufacturing output and 23% of employment (Figure 7). By 1970, however, the food processing industry provided only 17% of total output and 10% of employment. The rubber industry, traditionally one of Singapore's major industries, consists largely of processing, grading, and packing imported crude rubber into standard export grades of remilled rubber and smoked sheets. It also has been declining in importance for the past decade. The value of output actually dropped from $391 million in 1960 to $312 million in 1970, and employment fell by some 5% during the same period. The fastest growing industries in terms of output during the decade were petroleum refining, electrical equipment, and transport equipment (including shipbuilding and repair), which together now account for some 50% of total output. The petroleum and coal products industry alone accounted for 29.8% of the total value of manufacturing output in 1970. The transport equipment, textiles, and clothing, and electrical machinery industries are Singapore's largest employers.

The food processing industry produces a variety of foodstuffs, including canned meat and fish, processed poultry, canned fruits and vegetables, dairy products, vegetable oils, beverages, and confectionery. Future

FIGURE 7. Output and employment, by major industry groups* (U/OU)
(Percent of total)

	1960		1970	
	Output	Employment	Output	Employment
Food, beverages, and tobacco	*33.0*	*23.0*	*17.0*	*9.9*
Paper products, printing and publishing	*10.3*	*16.4*	*3.4*	*7.7*
Textiles, clothing, and leather products	*3.3*	*4.7*	*4.8*	*14.2*
Rubber products	*3.9*	*3.2*	*1.3*	*1.8*
Chemicals and chemical products	*13.7*	*5.2*	*5.3*	*4.2*
Petroleum and coal products	***na*	***na*	*29.8*	*1.6*
Metal products	*6.5*	*6.3*	*5.3*	*7.4*
Machinery	*3.6*	*5.3*	*1.9*	*3.1*
Electrical equipment	*3.7*	*4.6*	*8.5*	*11.6*
Transport equipment	*6.8*	*8.3*	*8.4*	*15.5*
Other***	*15.2*	*23.0*	*14.3*	*23.0*
Total	*100.0*	*100.0*	*100.0*	*100.0*
Value in millions of U.S. dollars	$152.1	....	$1,301.5	....
Number of persons employed	....	27,416	....	126,449

*Excluding rubber processing.

**Data are not separately available; are included in data on chemicals and chemical products.

***Includes the wood and cork, furniture, nonmetallic mineral products, basic metal industries, and miscellaneous other industries.

development of the industry will focus on products such as instant and packaged foods and exotic oriental delicacies for export. The industry consists of about 250 plants and some 12,600 workers. Most food manufacturing plants are small, but modern production methods are being adopted.

Singapore's textile and clothing industry (includes leather products) was established in the early 1960's and has expanded rapidly since then. Output increased 11 times during the 1960's and in 1970 was valued at $62 million. The textile industry is the manufacturing sector's second largest employer (transport equipment is first), accounting for 14% of total employment in 1970 compared with less than 5% in 1960. About half of the industry's output is exported.

The textile and clothing industry consists of a relatively large number of small firms. About 10% of all manufacturing firms in Singapore are involved in textile production, but most are small enterprises and employ only a handful of people. These firms are heavily concentrated in the clothing sector, which employs about 58% of the textile and clothing industry's total labor force. A few large firms, such as South Grand Textiles Ltd., account for much of the yarn and fabric production, however, and employ up to several hundred persons each. Many of these larger firms involve foreign investment, mainly from Hong Kong, Japan, and Taiwan. The government's Economic Development Board also has an interest in at least one of these large firms, most of which are located in the Jurong industrial estate. About one-third of Singapore's textile production and exports come from plants in Jurong.

Singapore's wood products industry consists primarily of several plywood and veneer plants which use timber imported from Malaysia and produce mainly for export. Products include furniture, parquet flooring tiles, door and window frames, and wooden cases. The industry is being expanded and upgraded. New products include knocked-down furniture, wooden toys and prefabricated structures, and new facilities are being installed for the production of higher quality veneers and prefinished and prefabricated units. Particle board, chipboard, and hard board plants are also being established to utilize waste materials. The printing, publishing, and packaging industries also are well developed. Paper products include paper and paperboard, in rolls and sheets, and corrugated fiberboard cartons.

Singapore's electrical equipment industry includes a small but rapidly expanding electronics sector which manufactures and assembles electronic products and components, including transistors, diodes, inductors, capacitors, resistors, transformers, printed circuit boards and computer components. Raw materials and parts are imported from Japan, the United States, Taiwan, and Hong Kong, and most of the output is exported. The industry consists of about 45 foreign and local firms employing some 15,000 workers. The government is particularly interested in training workers in the electronics field, and international firms are aiding the government in conducting training programs designed to provide some 5,000 skilled workers by 1975.

Singapore is now the largest ship repair center in Southeast Asia. There are four major shipyards—Keppel, Sembawang, Jurong Shipyards (Private) Ltd., and Jurong Shipbuilders (Private) Ltd.—and about 40 smaller ones. These yards employ some 16,000 workers. The increased interest in oil exploration in Southeast Asia has encouraged the growth of ship construction, especially of rigs, barges, tugs, and hydrographic vessels. While a record year of growth was registered in 1970, a shortage of skilled labor and a lag in the expansion of existing shipyards restricted the industry's growth in 1971 and 1972.

The small rubber products industry which includes the production of tires, rubber footwear, hosing, compounds, foam rubber, and other articles. While the value of output of rubber products nearly tripled during 1961-70, its share of total manufacturing output declined from 4% in 1960 to about 1% in 1970.

b. Construction

The construction industry has expanded rapidly with the rising demand for public housing, office buildings, industrial plants, and hotels. In 1967, Singapore offered substantial property tax reductions for those projects constructed under the urban renewal program. In addition, the Housing Development Board (HDB) provided easy credit terms for the purchase of its flats (Figure 8). As a result of these policies, the public housing program now accounts for about 80% of all residential units being built. Under the First Five Year Building Program (1960-65), 54,000 units were completed, and under the second plan (1965-70) the target of 60,000 units was nearly met. The goal for the third plan (1971-75) is 100,000 units.

The Singapore Port Authority has been investing heavily in warehousing and storage facilities (Figure 9), rationalization of cargo handling, and billing and service operations, and is continuing to push ahead with construction of a $27 million container port with elaborate ancillary services.

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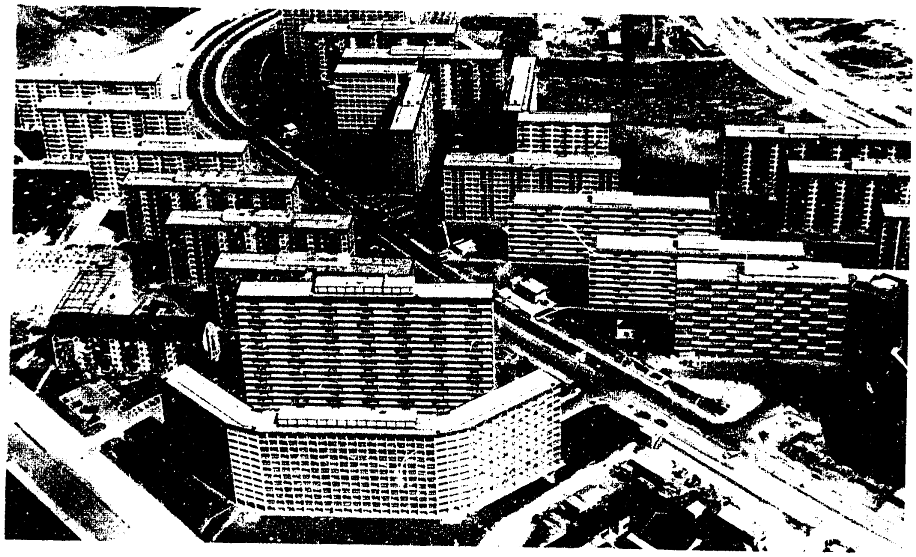

FIGURE 8. The public housing project at Toa Payoh includes 8,000 apartments and is typical of many others in Singapore's burgeoning new housing programs (U/OU)

FIGURE 9. One of the Port of Singapore Authority's modern covered storage facilities (U/OU)

5. Domestic trade (U/OU)

In Singapore, all domestic trade is handled by private enterprises. The government does not engage in commercial undertakings and does not exercise direct control over prices, although it has on several occasions pressured producers of basic necessities to withdraw proposed price increases. Most wholesale and retail trade is dominated by local businessmen, although a few large manufacturers of consumer goods have their own retail outlets.

There are a few Western-style department stores and supermarkets carrying a fairly wide range of consumer goods. Since 1966 several stores have been opened that market goods produced in mainland China. These stores offer a variety of light consumer goods including wearing apparel, electrical appliances, musical instruments, textiles, and toys at low prices. Most retail shops are small and offer only a limited inventory of goods. The population relies heavily on public markets for fruit, vegetables, fish, meat, and eggs.

C. Economic policy and development (U/OU)

1. Policy

Singapore essentially has a free enterprise economy, with direct government participation limited to the infrastructure. The government owns and operates port facilities, the telecommunications system, and most electric power facilities. Indirectly, it is very active in planning, financing, and otherwise encouraging economic growth. In addition to providing special tax incentives to new industries, as well as technical and various consulting services, the government has established some 13 industrial sites with the infrastructure and other facilities needed to attract investors. The government also provides various welfare programs, including public health services, child care centers, and counseling services, which help attract and hold an experienced labor force in urban areas.

Singapore welcomes private foreign investment and actively encourages the inflow of foreign capital for industrial development. The government makes little distinction between local and foreign capital, although it prefers joint ventures with both local and foreign participation. Government support of industrial development is largely through the pioneer industry program. To qualify for pioneer status, a company must have a minimum fixed capital expenditure of $355,000. Pioneer status is not granted to those industries producing exclusively for the domestic market, nor to industries which are already well developed. Benefits granted to pioneer status firms include a 5-year tax exemption period, tax exemptions on dividends paid during that period, loss carryover for tax purposes beyond the tax relief period, and deduction of capital cost allowances following termination of the tax relief period. There are also incentives for the expansion of selected established enterprises.

There are no comprehensive statistics on the extent of foreign investment in Singapore. In 1971, foreign investment in the manufacturing sector was estimated at $628 million. Of the total already invested, the United States accounts for the largest single share.

a. Current account expenditures[2]

Singapore's generally sound financial policies have resulted in current account surpluses which rose from $30 million in 1966 to $72 million in FY1970/71. The current account surplus is transferred to the development budget but normally does not cover total development spending. A rising share of development spending is financed by borrowing. During the First Economic Development Plan (1961-65), 72% of the financing came from the surplus of the current account budget, including profits of government statutory authorities such as the Public Utilities Board and the Port of Singapore Authority. The surplus covered only about one-third of the financing of the FY1971/72 development plan; the remainder was financed by domestic and foreign borrowings and a draw-down of foreign exchange cash balances.

Current account expenditures have more than doubled since 1966 and in FY1970/71 reached $379 million (Figure 10). This growth is largely attributable to the rapid rise in internal security and defense expenditures, which accounted for 28% of current account expenditures in FY1970/71. The first major increase occurred in 1966 after the break from Malaysia, and the second in 1970 after the withdrawal of British troops. The second largest category of spending was education, which amounted to $5. million, or 15% of the total. Another $39 million was spent on health and other social services. About $33 million were allocated for a wide variety of economic services, including postal and telegraph services and public works programs.

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[2]Singapore has changed its financial reporting from calendar to fiscal years. Years for the current account are calendar years through 1968 and fiscal years (1 April-31 March) since 1969. The development budget has been formulated on a fiscal year basis since 1970. The development budget covered in this chapter, however, is for calendar year 1970, since the fiscal year figures include some double counting because of the change in reporting.

FIGURE 10. Current account expenditures (U/OU)
(Millions of U.S. dollars)

	1966	1970/71*
Social services:		
Education	40.5	56.5
Public health	23.2	26.9
Other	15.7	12.7
Total	79.4	96.1
Economic services:		
Postal and telegraph services	7.2	10.6
Civil aviation	1.6	1.9
Public works	7.5	9.1
Other	4.3	10.9
Total	20.6	32.5
Internal security and defense	26.1	105.2
General administration**	43.2	145.1
Total***	169.3	378.9

*Fiscal year ending 31 March 1971. Expenditures were reported by calendar years through 1968.

**Includes debt servicing, internal administration, and contributions to the Sinking Fund ($6.6 million in 1966 and $87.2 million in FY1970/71).

***Components may not add to totals shown because of rounding.

Government revenues have increased even faster than expenditures, rising from $202 million in 1966 to $451 million in FY1970/71 (Figure 11). Income taxes are the largest single source of revenue, accounting for almost one-fifth of total revenue. The rapid rise in income tax revenues—from $36 million in 1966 to $85 million in FY1970/71—was due to the increase in the tax base, particularly following the expiration of the tax holiday for many pioneer firms. The number of pioneer firms paying income tax tripled between 1968 and 1971, whereas the amount of tax assessment increased from $1 million to $8 million during the same period. The tax rate on individual income ranges from 6% on the first $815 to 55% of the excess over $32,500. Corporations are assessed at a flat rate of 40%. Resident corporation shareholders are given full tax credits on their own assessments for taxes paid by the companies. A variety of deductions and exemptions are allowed for both individuals and companies.

Import duties, while growing far more slowly than income tax receipts, are still a major source of revenue, accounting for about 13% of the total revenues in FY1970/71. The growth of import duties reflects the rise in imports, particularly of crude petroleum. Other major sources of tax revenue are property taxes and excise duties. Nontax revenues accounted for 40% of total revenues in FY1970/71. These revenues were derived primarily from the sales of goods and services, interest and dividends, investment earnings, and land sales and rent.

b. Development policy and budget

The Singapore Government initiated a coordinated development effort in the early 1960's. The First Economic Development Plan (1961-65) emphasized infrastructure, especially public housing. A second plan, intended for the 1966-70 period, was never implemented because the government decided instead to use a flexible development program with annually adjusted targets. Development expenditures have increased rapidly. During the first plan, spending was about $60 million annually, and by 1970 annual outlays had tripled to $180 million. The FY1972/73 development budget called for expenditures of $380 million.

Economic projects have accounted for about two-thirds of total development expenditures. Of the $180 million spent on development in 1970, about $118 million was used to expand industry and related infrastructure (Figure 12). The withdrawal of British military forces caused a substantial increase in defense

FIGURE 11. Government revenues (U/OU)
(Millions of U.S. dollars)

	1966	1970/71*
Tax revenue:		
Direct taxes:		
Income tax	35.9	85.1
Property tax	24.5	37.3
Estate duty	1.6	3.2
Payroll tax	3.3	5.8
Indirect taxes:		
Import duties	48.0	57.1
Motor vehicle taxes, duties, and fees	12.1	21.4
Excise duties	8.2	35.4
Other	7.2	22.1
Total revenue	140.8	267.4
Other revenue:		
Sales of goods and services	19.0	44.5
Interest and dividends	5.9	33.4
Land sales and rent	4.6	14.6
Other	31.9	90.9
Total other revenue	61.4	183.4
Grand total**	202.2	451.0

*Fiscal year ending 31 March 1971. Revenues were reported by calendar years through 1968.

**Components may not add to total shown because of rounding.

FIGURE 12. Distribution of development expenditures, 1970* (U/OU)

	MILLION U.S. DOLLARS	PERCENT OF TOTAL
Economic development:		
Industry	48.2	26.8
Public utilities	32.5	18.1
Transport and communications	22.1	12.5
Land reclamation and development	13.8	7.7
Other	1.2	0.7
Total	117.8	65.8
Social development:		
Housing	34.0	18.9
Education	3.9	2.2
Sewer systems	3.0	1.7
Community services	1.2	0.7
Health	0.8	0.4
Total	42.9	23.9
Public administration and defense	18.9	10.5
Grand total**	$179.6	100.0

*Calendar year.

**Components may not add to total shown because of rounding.

outlays, and public administration and defense accounted for more than 10% of development expenditures in 1970, compared with only 2% during 1961-65. With social development expenditures growing much more slowly than the other categories, its share of total expenditures fell from 36% in the first plan to 24% in 1970. About 80% of social expenditures in 1970 was for public housing, and the remainder for health, education, sewer systems, and community services.

The FY1971/72 budget continued the relative decline in social development expenditures to 20% of the total while economic development expenditures increased to some 69%. Additional programs designed to improve industrial infrastructure and transport facilities accounted for most of this growth. Public administration and defense accounted for the remaining 10% of the development budget expenditures.

Long-range development objectives reflect the declining importance of entrepot trade and the emphasis on industrial development. In order to strengthen the technical manpower base, Singapore is bolstering its industrial and vocational training programs by expanding the universities and arranging for on-the-job training in selected industries. There is also a program to establish a comprehensive wage policy that reflects productivity increases. A new plan being formulated for industrial land development is designed to locate nonpolluting light industries near residential areas to more fully utilize the female labor force.

2. Money and banking

The basic unit of currency in Singapore is the Singapore dollar (S$), with an exchange rate in late 1972 of US$1.00=S$2.80. Until June 1967, when Singapore dropped the Malayan dollar and began issuing its own currency, the currency-issuing function was performed by the Malaysia Board of Commissioners of Currency. The Singapore Currency Board now issues Singapore's currency, which is fully backed by external assets, gold, and convertible currencies. Because of the devaluation of the British pound, Singapore in June 1972 decided to peg its currency to the U.S. dollar.

All central banking functions, with the exception of currency issue are performed by the Monetary Authority, which was established on 1 January 1971. In addition to the Currency Board and the Monetary Authority, other financial institutions include the commercial banks, the Central Provident Fund (CPF), the Post Office Savings Bank (POSB), the Development Bank of Singapore (DBS), finance companies, insurance companies, and the Singapore branch of the Malaysia-Singapore Stock Exchange. The CPF is the largest of these institutions, with outstanding member balances of about $300 million. Few employers are allowed to operate their own pension funds; most employers—the outstanding exception being the government—are required to contribute monthly to the CPF for all their employees. The DBS is a major source of industrial financing, providing loans and advances to industrial enterprises, subscribing and underwriting stocks and bonds, and guaranteeing loans. It also engages in some commercial banking functions.

Commercial banking has been developed extensively in Singapore. By the end of 1971, there were 36 domestically owned commercial banks, which operated a total of 177 banking offices, and nine foreign owned banks. Total commercial bank deposits reached $1,126 million in June 1971, representing a 19.5% annual growth since 1966. Shifts in banking activity reflect structural changes in Singapore's economy. Singapore banks traditionally concentrated on providing short-term capital to finance trade and commercial ventures, but between 1965 and 1971 the share of total commercial bank loans and advances to finance trade declined from 48% to only 31%, while longer term loans to industry increased from 17% to 34% of the total.

Singapore traditionally has enjoyed stable monetary conditions. During the 1960's, the consumer price index rose by only about 1% annually, although the latter part of the decade saw some acceleration. During the period 1967-70, the money supply increased by about 13% annually, more than double the rate of the early 1960's, but the increase slowed somewhat after 1970. The sharp increase in net bank claims on the private sector, resulting largely from industrial expansion, was one of the principal causes of monetary expansion. Saving deposits increased considerably during the late 1960's, largely offsetting the expansionary influence on the money supply.

In line with the government's goal of establishing Singapore as the financial center of Southeast Asia, the Asian dollar market was initiated in 1968 by several private overseas banks—principally the Bank of America—with government support. In mid-1972 the market had estimated total resources of about $2.1 billion. While the purpose of this market was to finance industrial development in Asia, most of the funds initially flowed to the Eurodollar market because of the more attractive interest rates there. Now, however, Asian and Australian customers are the main users. In addition to the Asian dollar market, a free gold market was created in Singapore in 1969. Most of the gold is imported from Europe and reexported to Asian countries. Very little gold is retained in Singapore. The government levies an import duty of $1.00 per ounce of gold; by 1971 Singapore's net earnings from this market amounted to some $33 million.

3. Manpower

In marked contrast to the serious rate of unemployment in the mid-1960's, Singapore now suffers from a labor shortage. In 1966 an official government survey indicated that about 9% of the labor force was unemployed, while unofficial estimates placed the rate as high as 17%. At that time only 17,000 people were entering the labor force each year, but even this number could not be absorbed. Industrialization during the late 1960's increased the number of new jobs created from 13,000 annually to 40,000 in the manufacturing sector alone in 1971. The main contributors to this rapid job expansion were the labor-intensive shipbuilding and repair industry, the textile and clothing industry, and the electronics industry. Although the number of annual entrants into the labor force has nearly doubled since 1966, the rapid growth of employment opportunities has created a shortage of workers in many skilled job categories.

The Singapore Government has adopted two major programs to alleviate the shortage. The most effective thus far has been a program encouraging the temporary influx of foreign workers possessing the required skills. Since mid-1970, some 70,000 work permits have been issued under this program, primarily to Malaysians. Work permits are viewed as only a short-term solution, however, and for the long term, emphasis is being placed on improved training programs for Singaporeans. More vocational institutes have been established and existing university and technical college training facilities are being expanded. The secondary school system is being reorganized to give a higher priority to technological training, and joint industry and government training programs have been created to provide both on-the-job and overseas training. The cost of training can be deducted from payroll taxes.

The total labor force was estimated at about 700,000 in 1970. Excluding self-employed farmers, taxi drivers, hawkers, and itinerant workers, there are 470,000 workers, of whom one-third were in manufacturing, one-fifth in commerce and most of the remainder in transport and finance (Figure 13).

Because of severe unemployment in the mid-1960's, Singapore limited wage increases in an effort to attract investment and thus provide more jobs. The wage restraint policy continued until May 1972 when the government accepted the recommendations of the newly formed National Wage Council. The new wage policy called for a general private sector wage increase of 8%, including an annual bonus payment and a 2% increase in CPF contributions by both employers and employees. Civil servants were given a comparable

FIGURE 13. Composition of the employed labor force, by economic sector, 1971 (U/OU)

SECTOR	EMPLOYEES	PERCENT OF TOTAL
Agriculture, forestry, and fishing	2,256	0.5
Mining and quarrying	1,833	0.4
Manufacturing	152,639	32.2
Electricity, gas, water, and sanitary services	15,228	3.2
Construction	24,841	5.2
Commerce	102,259	21.5
Transport, storage, and communications	46,706	9.8
Finance, insurance, real estate, and business services	28,472	6.0
Community, social, and personal services	100,484	21.2
Total	474,718	100.0

wage hike in March 1972. The government plans to tie future wage increases to productivity increases while keeping wages low enough to continue to attract foreign investment.

D. International economic relations (U/OU)

Singapore's foreign trade, which totaled $4.0 billion of recorded trade, and as much as $900 million of unrecorded trade in 1970, is of vital importance to the economy (Figure 14). Singapore depends on imports to supply raw materials to its rapidly developing industrial sector, while much of its manufactured products are exported to overseas markets. Moreover, Singapore traditionally has been the leading entrepot port in Southeast Asia, reexporting the primary commodities of neighboring countries and supplying their requirements for finished goods from Singapore warehouses. Although entrepot trade has declined in relative importance, from 60% of total recorded trade in 1965 to about 40% in 1970, it still contributes more than 11% of Singapore's GDP. The decline has been due to the rapid expansion of foreign trade, the development of Singapore's export-oriented manufacturing industries, and to the increasing tendency of neighboring countries to establish their own direct trading channels.

FIGURE 14. Summary of foreign trade, 1970 (U/OU)
(Millions of U.S. dollars)

Entrepot trade:	
Exports	957.1
Imports	603.2
Total	1,560.3
Other trade:	
Domestic exports	597.1
Retained imports	1,858.8
Total	2,455.9
Total recorded trade:	
Exports	1,554.2
Imports	2,462.0
Total	4,016.2
Adjustment for unrecorded trade:	
Exports	685.4
Imports	214.6
Total	900.0
Adjusted total trade:	
Exports	2,239.6
Imports	2,676.6
Total	4,916.2

Singapore essentially has long been a free port with few tariffs, but with the government's promotion of industrial development, some tariffs and import quotas have been imposed to protect domestic manufacturers. The main import duties, however, are for revenue purposes. These are levied mainly on tobacco, liquor, sugar, and petroleum, which are imported for domestic consumption. There are no restrictions on exports. To maintain Singapore's status as an entrepot port, two free-trade zones went into operation in September 1969. These zones include all of Singapore's deep-water wharves and some lighter facilities. Important entrepot trade commodities include rubber, coffee, copra, rattan, spices, palm oil, petroleum, machinery, textiles, and timber. Rubber, most of which is imported from Malaysia, has always been a major commodity in Singapore's entrepot trade although falling world market prices have caused a slight decline in value during the past few years.

Singapore's exports of domestic origin doubled during 1966-70, and in 1970 accounted for 38% of total recorded exports, compared with only 25% in 1965. More than half of this rapid growth reflects the striking increase in exports of petroleum products, which rose from $129 million in 1965 to $350 million in 1970. During the late 1960's, about one-third of all petroleum exports were sent to South Vietnam. Since petroleum products account for more than half of domestic exports, the slowdown of the Vietnam war has resulted in a considerably lower growth rate for domestic exports. Other locally produced exports include wood products, textiles, iron and steel construction materials, and boats (Figure 15).

Of $2.5 billion total recorded imports in 1970, only 25% was designated for reexport, compared with nearly 50% in 1965. The fastest growing category of retained imports is capital equipment for Singapore's new industries. Manufactured goods and petroleum are also major retained import commodities.

Malaysia is Singapore's most important trading partner, accounting for 17% of Singapore's total recorded imports and 15% of its exports in 1970 (Figure 16). Exports to Malaysia have declined since the early 1960's as Malaysia has developed its own industrial capabilities. Manufactured goods and machinery, still the two largest categories of exports to Malaysia, have declined in absolute value. Imports from Malaysia, on the other hand, continue to expand. About one-third of Singapore's imports from Malaysia are crude rubber for reexport. Palm oil is the second largest trade item.

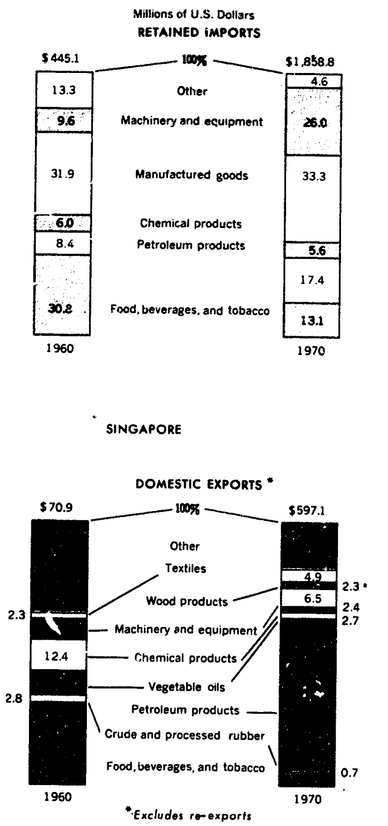

FIGURE 15. Commodity composition of recorded foreign trade (U/OU)

Japan recently surpassed Malaysia as the largest supplier of goods to Singapore, accounting for nearly 18% of total imports in 1970. About one-fifth of these are textile fabrics; steel and machinery are other major categories. Japan takes only about 5% of Singapore's exports, about two-thirds of which are petroleum products. Other major trading partners include the United States, which takes about 8% of Singapore's exports and supplies 10% of its imports, the United Kingdom, Australia, and Hong Kong.

Singapore has a substantial volume of unrecorded trade, most of which is with Indonesia. Indonesia was Singapore's second largest market and supplier before the cessation of trade relations in 1963. Indonesia's trade embargo during the confrontation brought a decline in Singapore's trade with third countries as well, since Singapore served as an entrepot for third-country commerce with Indonesia. Some barter trade, smuggling, and trade through third countries continued, but its magnitude cannot be ascertained. The signing of a trade agreement in early 1967 ended the embargo, and trade with Indonesia has expanded substantially. Estimates made by the World Bank of

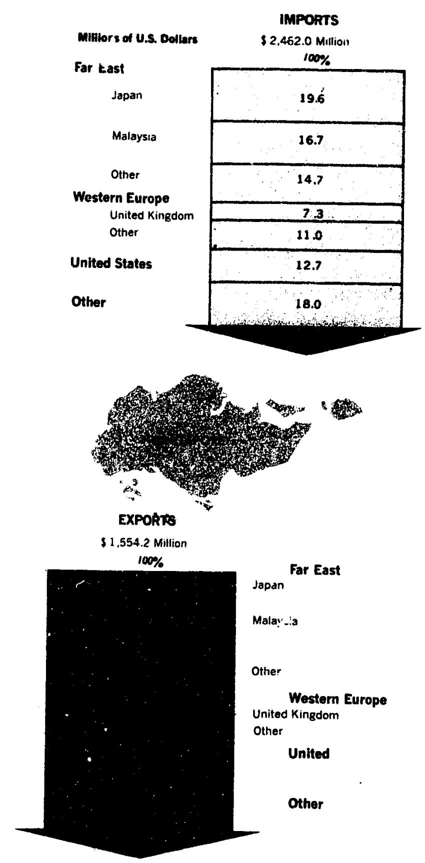

FIGURE 16. Direction of foreign trade, 1970 (U/OU)

unrecorded trade show an increase from $222 million in 1966 to about $900 million in 1970. Most of the growth was in unrecorded exports—presumably to Indonesia—which increased more than fivefold during 1966-70.

Singapore became a member of the United Nations in September 1966 and subsequently, of the Economic Commission for Asia and the Far East (ECAFE), the International Monetary Fund (IMF), the World Bank (International Bank for Reconstruction and Development—IBRD), and the International Finance Corporation (IFC). In addition, Singapore is a member of two Asian regional economic organizations—the Colombo Plan and the Asian Development Bank (ADB).

Singapore's balance of payments data do not include Indonesian trade and do not adequately cover earnings from services or private capital inflows. Estimates reallocating the large errors and omissions item have been made by the IBRD. According to these estimates, Singapore's overall balance of payments has shown increasing surpluses since 1966, characterized by large and growing trade deficits offset by a surplus on the services accou... and private capital inflows (Figure 17).

The growing merchandise trade deficit is largely due to the increase in retained imports, particularly of capital equipment for Singapore's growing industries. In 1970, the trade deficit reached $414 million, more than double the 1966 level. The surplus on the services account reflects Singapore's position as a leading financial and commercial center in Southeast Asia. In addition to ancillary services such as banking, insurance, and transportation, Singapore is attracting a growing number of tourists. In the early and mid-1960's, earnings from British military expenditures accounted for a very large share—some 70% to 80%—of service account surpluses. As the British began the withdrawal of their forces, however, these earnings declined and in 1970 accounted for only about half of the service account surpluses. As a result of the growing trade deficit and the slowing growth of the services account, Singapore had a current account deficit of $136 million in 1970, compared with surpluses of from $31 million to $48 million during 1966-69.

FIGURE 17. Balance of payments (U/OU)
(Millions of U.S. dollars)

	1966	1970
Current account:		
Exports	1,132.6	2,099.3
Imports	1,320.1	2,513.8
Trade balance	-187.5	-414.5
Nonmonetary gold (net)	-1.1	26.5
Freight and insurance	-72.8	-143.7
Transportation	89.6	164.9
Travel	27.8	99.3
Investment income	19.5	39.4
Government transactions*	180.9	132.2
Other	-10.3	-32.6
Services (net)	234.7	259.6
Transfers (net)	-14.7	-7.7
Current account balance	31.4	-136.1
Capital account:		
Private long term capital	18.4	206.0
Official loans and grants	-1.7	45.8
Capital account balance	16.7	251.8
Net errors and omissions	13.0	35.1
Overall balance	61.1	150.8

*Mostly British military expenditures.

The 1970 current account deficit was more than offset by long-term private capital inflows, which increased from only $18 million in 1966 to $206 million in 1970. The overall balance-of-payments surplus reached $151 million in 1970, about the same as 1969 and more than double the 1966 level. Foreign exchange reserves amounted to $1,361 million in 1970.

Singapore has received only limited amounts of external aid, most of it in the form of technical assistance. The United Nations Development Program contributed about $7 million in 1970, including the provision of technical services. U.N. projects place heavy emphasis on providing technical education for Singapore's labor force. Some $10 million in bilateral aid was disbursed in 1970, most of which was a United Kingdom aid grant and a special Japanese grant. In addition, several loans have been extended to statutory authorities in Singapore by the World Bank. During 1965-70, these loans amounted to $58 million. The United States does not have a bilateral aid program in Singapore. It does, however, operate a P.L. 480 Title III program for the distribution of food surpluses by private organizations.

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Glossary (u/ou)

ABBREVIATION	ENGLISH
ADB	Asian Development Bank
CPF	Central Provident Fund
DBS	Development Bank of Singapore
EDB	Economic Development Board
HDB	Housing Development Board
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
NISM	National Iron and Steel Mills
POSB	Post Office Savings Bank

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