

2001 Country Reports on Economic Policy and Trade Practices

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SINGAPORE

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1999	2000	2001 1/
<i>Income, Production and Employment:</i>			
Nominal GDP 2/	84,089	92,466	86,962
Real GDP Growth (pct) 2/	5.9	9.9	-2.0
GDP by Sector: 2/			
Agriculture 3/	0	0	0
Manufacturing	21,079	24,890	23,583
Services	57,205	62,731	45,654
Government expenditure	8,799	10,762	15,892
Per Capita GDP (US\$)	21,284	23,000	21,645
Labor Force (000s)	1,976	2,192	2,000
Unemployment Rate (pct)	3.5	3.1	4.0
<i>Money and Prices (annual percentage growth):</i>			
Money Supply Growth (M2)	8.5	-2.9	-13.0
Consumer Price Inflation (pct)	0.0	1.8	1.4
Exchange Rate (SGD/US\$ annual average)	1.69	1.72	1.76
<i>Balance of Payments and Trade:</i>			
Total Exports FOB	114,965	138,271	115,292
Exports to United States CIF 4/	22,021	23,947	19,178
Total Imports CIF	111,326	134,986	112,127
Imports from United States FAS 4/	18,961	20,185	17,548
Trade Balance	3,638	3,285	3,165
Balance with United States 4/	3,060	3,762	1,630
External Public Debt	0	0	0
Fiscal Surplus/GDP (pct)	1.9	1.5	2.8
Current Account Surplus/GDP (pct)	25.0	25.0	24.0
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves	77,176	80,427	74,353
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

Note: All percentage changes are calculated based on the local currency.

1/ 2001 figures are projections based on most recent data available.

2/ Singapore introduced a methodology to include offshore stockbroking, investment advisory and insurance services in the output of the financial services industry, resulting in changes to the GDP and growth figures computed in previous years.

3/ Includes the agriculture, fishing, and quarrying industries.

4/ Trade data was taken from the U.S. Department of Commerce instead of Singaporean government sources.

1. General Policy Framework

Singapore's open-trade economic policies have enabled it to overcome land, labor and resource constraints to become the world's second most competitive economy (according to the World Economic Forum's 2001 ranking). It has also helped Singapore achieve the world's fifth highest per capita income, based on the World Bank's 1999/2000 ranking of per capita GNP in purchasing power parity terms. Manufacturing, dominated by electronics, chemicals (including oil refining) and information technology-related products, accounted for 26 percent of total GDP in 2000. Multinational companies accounted for 79 percent of new manufacturing investment, which totaled US\$5.4 billion in 2000. Wholesale and retail trade represented 17 percent of GDP in 2000, reflecting Singapore's key role as a regional gateway. Financial services, which accounted for 11 percent of GDP in 2000, is the third largest economic sector.

Trade was three times GDP in 2000; re-exports (transshipments) accounted for 43 percent of total merchandise exports. The United States is Singapore's second largest trading partner, after Malaysia, accounting for 16 percent of Singapore's total trade in 2000. U.S. exports to Singapore amounted to US\$17.8 billion in 2000, while Singapore's exports to the United States totaled US\$23.9 billion. Singapore was the tenth largest export market for the United States in 2000. Over 1,515 U.S. companies have facilities in Singapore, with total investments of US\$23.2 billion in 2000.

While Singapore has a largely free-market business environment, government-linked companies (GLCs) and the public sector account play an important role in the economy, accounting for at least a quarter of GDP and over one third of the Singapore Exchange's capitalization. However, GLCs generally operate as commercial entities and frequently include private local and foreign equity. Many are publicly listed.

The government pursues conservative fiscal policies designed to encourage high levels of savings and investment, but invests heavily in the country's social and physical infrastructure, including education and transportation. It also provides subsidies for public housing. Over a third of the budget is spent on defense. The government generally runs a budget surplus, US\$3.1 billion in Singapore Fiscal Year (SFY) 2000. Foreign reserves total over US\$80 billion, with a substantial share invested overseas. The Central Provident Fund (CPF), a compulsory savings program that requires 36 percent of an individual's salary to be placed in a tax-exempt account, is the principal reason for the high gross national savings rate of about 50 percent of GDP.

There are virtually no controls on capital movements. The key objective of the Monetary Authority of Singapore (MAS), the country's central bank, is to maintain price stability. It does so largely through exchange rate policy. MAS also engages in limited money-market operations to influence interest rates and ensure adequate liquidity in the banking system. Inflation has averaged 2.0 percent annually over the last 10 years, except for 1998 when there was deflation of 0.3 percent due to the economic recession. Since the economic recovery, price levels have been rising with the CPI expected to increase by 3.5 percent in 2001. The average prime lending rate among the leading banks is currently at 5.8 percent.

2. Exchange Rate Policy

Singapore has no exchange rate controls and exchange rates are determined freely by market forces. The Monetary Authority of Singapore (MAS) manages the Singapore dollar against a basket of currencies of Singapore's main trading partners and competitors, and the trade-weighted exchange rate is allowed to fluctuate within an undisclosed policy band. The Singapore dollar weakened during 2001. The government imposes certain restrictions to limit the internationalization of the Singapore dollar, although these have been loosened significantly, most recently in December 2000 and March 2001.

3. Structural Policies

Market forces generally determine product prices. The government conducts its bids by open tender and encourages price competition throughout the economy.

Singapore's personal income tax rates range from two percent for the lowest income bracket to 28 percent for those earning annual incomes exceeding S\$ 400,000 (about US\$ 240,000), although most low-to-middle income Singaporeans benefit from tax exemptions and pay no tax. In April 2001, the government lowered corporate income tax rate from 25.5 percent to 24.5 percent, both effective in 2002. Foreign firms are taxed at the same rate as local firms. Apart from residential properties sold within three years, there is no tax on capital gains. All products, including imported goods, are subject to a three percent value-added Goods and Services Tax (GST). Faced with a sharp economic downturn in 2001, the government announced two extra-budgetary spending and tax cut packages designed to support domestic demand, minimize unemployment, and reduce business costs.

Investment policies are generally open and tailored to attract foreign investment and ensure an environment conducive to efficient business operations. The government vigorously develops and implements industrial policies, and in some limited areas links licenses for certain activities to performance requirements. It does not, however, impose production standards, require purchases from local sources, or specify a percentage of output for export. The government seeks to upgrade Singapore into what it terms a knowledge-based economy, with a particular focus on the logistics, electronics and info-technology, chemicals, life sciences, bio-medical, and healthcare sectors. It also wants to make Singapore a key Asia-Pacific financial

center and an info-communication hub. As part of this process, the government has moved to open restricted sectors, such as domestic banking, telecommunications and power, to foreign investment. It extensively uses fiscal policy tools to encourage research and development, as well as attract foreign professionals to work in Singapore.

4. Debt Management Policies

Singapore has no external public debt. The country's total foreign reserves amounted to US\$80.4 billion as of end-2000, sufficient to cover six months of imports. Singapore does not receive financial assistance from foreign governments.

5. Significant Barriers to U.S. Exports

Approximately 96 percent of imports are duty-free. Tariffs are primarily levied on cigarettes and alcohol to restrict their consumption. Excise taxes are levied on petroleum products and motor vehicles to restrict motor vehicle use. Import licenses are not required, customs procedures are minimal and designed to facilitate trade, and the standards' code is reasonable. All major government procurements are by international tender. Singapore is a signatory to the WTO Government Procurement Agreement.

While welcoming foreign investment in most areas, important barriers to U.S. service providers remain in some sectors, particularly in finance and professional services. The Monetary Authority of Singapore (MAS) has liberalized domestic restrictions on foreign financial services providers. In 1999, it opened up the local securities market to foreign brokers, and issued "qualifying full bank" (QFB) licenses to four foreign banks. It plans to award two more QFB licenses by end-2001. However, QFBs remain limited to 15 locations (branches or ATMs) and are unable to access the local ATM network. This puts them at a major competitive disadvantage compared to the three Singapore-owned local retail banks.

Foreign law firms can and do set up offices in Singapore, generally to advise multinational clients on third-country matters or financial transactions in Singapore's offshore market. Since 2000, the government has permitted a limited number of foreign law firms to enter into joint ventures (including partnerships) or "formal alliances" with local law firms, which can then market themselves as single service providers. Foreign lawyers in joint law ventures may practice Singapore law if they are registered to do so by the Attorney General, but may not appear before judicial and regulatory bodies or render legal opinions relating to Singapore law.

Singapore opened its telecommunications industry to full competition and allowed full foreign ownership in April 2000. However, the cable industry remains in the hands of a monopoly provider, Singapore CableVision, a government-owned company. The government also restricts the importation of satellite receivers. The government is in the process of opening the power generation and supply sectors to foreign investment and competition. The electricity and gas distribution network will become a regulated monopoly operated by a corporatized-

government entity.

Direct selling and multi-level marketing companies face restrictions. The Multi-level Marketing and Pyramid Selling (Prohibition) Act of 2000 strengthened the prohibition on most multi-level marketing arrangements. While the government allows for arrangements that may have some of the features of multi-level marketing, the terms and conditions under which such arrangements can operate are unclear.

6. Export Subsidies Policies

Singapore does not directly subsidize exports. The government offers significant incentives to attract foreign investment, with most incentives directed at export-oriented industries. It also offers tax incentives to exporters and reimburses firms for certain costs incurred in trade promotion. It does not employ multiple exchange rates, preferential financing schemes, import cost-reduction measures or other trade-distorting policy tools.

7. Protection of U.S. Intellectual Property

Singapore has enacted a series of laws and amendments to existing provisions with the aim of rendering its IPR regime fully consistent with the WTO Agreement on Trade-Related Intellectual Property Rights. These measures include numerous amendments to its Copyright Law (1998 and 1999) and the Medicines Act (1998), as well as a new Trade Marks Act (1999), Geographical Indications Act (1999), Layout Designs of Integrated Circuits Act (1999), and Registered Designs Act (2000). Singapore is a member of the World Intellectual Property Organization (WIPO) but has not yet ratified the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. Singapore is a signatory to the Paris Convention for the Protection of Industrial Property, the Patents Cooperation Treaty, and the Budapest Treaty. Singapore also became a member of the Berne Convention in December 1998 and acceded to the Madrid Protocol in 2000. Singapore was removed from the U.S. Special 301 Watch List on April 30, 2001.

Singapore's Patent Law, which came into force on February 23, 1995, established a revised patent system in Singapore and provides patent protection for a maximum term of 20 years, subject to the annual renewal of the patent. Under the revised system, applicants no longer need to obtain a UK patent first. There are no significant IPR problems in the area of patent protection.

The new Trademarks Act, which came into force on January 15, 1999, includes new border enforcement measures and also extends protection of well-known trademarks and collective marks. However, the transshipment of counterfeit products through Singapore is a problem. The Geographical Indications Act, which came into force January 15, 1999, provides additional protection for wines and spirits and seeks to

prevent the use and registration of misleading geographical indications (e.g. “Virginia” ham, “California” wine), which would constitute an act of unfair competition within the meaning of the Paris Convention.

Amendments to the Copyright Act enhanced performers' rights, provided new protection for rental rights, strengthened customs controls and procedures, and legalized the seizure of business documents in raids on IPR violators. However, neither the exportation nor transshipment of infringing works, nor the use of infringing copies of software are considered criminal offenses. Most infringing products appear to be imported. While the overall software piracy level is among the lowest in Asia, it remains double that in the United States. Since January 2000, the Intellectual Property Rights Branch (IPRB) of the Singapore Police Force’s Criminal Investigation Department (CID), has made progress in conducting sustained operations against retail vendors and distributors of pirated works. But pirated computer software, music, and cinematographic works remain commonly available, and the use of unlicensed software continues to be widespread. The government also has not abandoned its “self help” policy on enforcement, which places an undue and expensive burden on rights holders to initiate raids and prosecute pirates. Finally, local universities and other education institutions have thus far failed to implement fully their obligations under the law to pay royalty fees in exchange for the right to duplicate copyrighted printed works for use in course materials.

8. *Worker Rights*

a. The Right of Association: The Singapore Constitution gives all citizens the right to form associations, including trade unions. Parliament may, however, impose restrictions due to security, public order, or morality considerations. The right of association is delimited by the Societies Act, and labor and education laws and regulations.

Singapore's labor force numbered 2.2 million in 2001, of which 315,000 or about 15 percent were organized into 72 trade unions. Almost all of these unions are affiliated with an umbrella organization, the National Trades Union Congress (NTUC), which has a symbiotic relationship with the government.

b. The Right to Organize and Bargain Collectively: Collective bargaining is a normal part of labor-management relations in Singapore, particularly in the manufacturing sector. Collective bargaining agreements are renewed every two to three years, although wage increases are negotiated annually.

c. Prohibition of Forced or Compulsory Labor: Singapore law prohibits forced or compulsory labor. Under sections of the Destitute Persons Act, however, any indigent person may be required to reside in a welfare home and engage in suitable work.

d. Minimum Age for Employment of Children: The government enforces the Employment

Act, which prohibits the employment of children under 12 years of age and restricts children under 17 from certain categories of work.

e. Acceptable Conditions of Work: The Singapore labor market offers relatively high wage rates and working conditions consistent with international standards. However, Singapore has no minimum wage or unemployment benefits. The government's enforcement of comprehensive occupational safety and health laws, coupled with the promotion of educational and training programs, have reduced the frequency and severity of industrial accidents during the last decade.

f. Rights in Sectors with U.S. Investment: U.S. firms have substantial investments in several industries, notably petroleum, chemicals and related products, electronic and electronics equipment, transportation equipment, and other manufacturing areas. Labor conditions in these sectors are the same as in other sectors of the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000

(Millions of U.S. Dollars)

Category	Amount
Petroleum	1,718
Total Manufacturing	11,834
Food & Kindred Products	5
Chemicals & Allied Products	574
Primary & Fabricated Metals	11
Industrial Machinery and Equipment	5,411
Electric & Electronic Equipment	4,081
Transportation Equipment	284
Other Manufacturing	749
Wholesale Trade	1,590
Banking	696
Finance/Insurance/Real Estate	6,217
Services	908
Other Industries	282
TOTAL ALL INDUSTRIES	23,245

Source: U.S. Department of Commerce, Bureau of Economic Analysis.