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WTO Trade Policy Review: Singapore*

Note: This text provides brief description of the conditions foreign business will encounter in trade with Singapore. It is based on a WTO Trade Policy Review for Singapore, issued mid July 2008. Readers wishing for deeper analysis should turn to the original Trade Policy Review available on the WTO website. (www.wto.org/english/tratop_e/tp_r_e/tp302_e.htm)

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals.

• ECONOMIC ENVIRONMENT

Singapore's economy, in terms of international trade and foreign investment remains one of the most open, and thus competitive, in the world. With a few exceptions, tariffs are zero, total merchandise trade is nearly four times GDP and inflows of foreign direct investment are substantial, accounting for the equivalent of one-sixth of GDP in 2007. Although its high degree of openness leaves Singapore vulnerable to periodic external shocks, the economy's flexibility has enabled it to adjust rapidly to these shocks by constantly improving productivity, and thus international competitiveness, which in turn contributes to economic growth and higher living standards.

Since 2004, Singapore's annual real GDP growth has averaged 7.9% and GDP per capita increased from US\$26,198 to US\$35,163 in 2007, underpinned by sound macroeconomic policies. Inflation has been low for the most part, averaging 1.3% annually; inflationary pressures, however, have risen since the second half of 2007, reflecting both domestic cost pressures and rising international prices, with the inflation rate hitting over 6% by early 2008.

Although average incomes have risen, the incomes of some people have risen faster than those of others, reflecting higher wage increases for skilled and well-educated workers. Singaporeans have generally benefited from globalization, but some older and less educated workers remain vulnerable to structural unemployment as the economy restructures and manufacturing and services move up the value-added ladder.

Singapore's external competitiveness has been tested by the rise of lower-cost economies in the region, notably China and India. Labour, capital, and total factor productivity growth held up relatively well during most of the review period, although there appears to have been a marked slowdown in 2007. Singapore has continued to undertake structural reforms, focusing on lowering costs, increasing wage and labour market flexibility, further liberalizing the banking, telecom and utility sectors. Singapore is also negotiating several trade and investment agreements with major trading partners. To lower business costs, the Government has progressively reduced the corporate tax rate to 18% and the top rate of personal income tax to 20%, and will keep taxes low to attract investment and talent and reward enterprise. Cuts in income taxes have been offset by a rise in 2007 in the goods and services tax (GST) from 5% to 7%, reflecting a continuing shift to indirect from direct taxes.

The longer-run challenge of moving Singapore into higher-value-added manufacturing and services is being addressed principally through incentives to attract investment in targeted areas, through further regulatory reform and through investment in infrastructure and R&D. By focusing on R&D and innovation, Singapore's development strategy has continued to shift from emphasis on using technology to creating it. Gross expenditure on R&D, mainly driven by the private sector, increased from 1.9% of GDP in 2000 to 2.4% in 2005 and is planned to increase to 3% by 2010.

• FRAMEWORK FOR TRADE AND INVESTMENT POLICY

Singapore participates in the Association of Southeast Asian Nations (ASEAN) and the Asia-Pacific Economic Cooperation (APEC) forum and also has bilateral trade and investment agreements with countries in various regions of the world. Singapore grants at least MFN treatment to all its trading partners. Singapore views the WTO as at the core of its trade policy strategy but also considers that trade liberalization efforts undertaken bilaterally and in regional fora can accelerate the momentum towards trade liberalization and thus form building blocks for the multilateral trading system.

Accordingly, since 2004, free-trade agreements (FTAs) with India, Jordan, Korea, Panama, and Brunei, Chile, and

* Extracted from WTO Secretariat Report on Trade Policy Review of Singapore

New Zealand (in the Trans-Pacific Strategic Economic Partnership Agreement) have entered into force, and Singapore is currently in FTA negotiations with Canada, China, Mexico, the Gulf Cooperation Council, Pakistan, and Ukraine. While Singapore has almost no applied tariffs, it has offered in the FTAs to negotiate preferential treatment for partners, ranging from binding all its tariff lines at zero, access to service industries in Singapore, mutual recognition of standards, enhanced investment protection disciplines, greater commitment to protect intellectual property rights, and elimination of anti-competitive practices.

Other notable developments include the enactment of an economy-wide competition law, which entered into effect in 2005 and the establishment in the same year of the Competition Commission of Singapore. Institutional transparency has been enhanced in significant ways. For example, since 2004 the consolidated group financial statements of Temasek Holdings, which owns and manages the Government's direct investments both locally and abroad, are published annually on the company's website; in addition, through improvements in e government, draft legislation or guidelines are issued increasingly for public consultation, usually through the websites of Ministries and statutory boards.

Aided by its open FDI policies, Singapore has continued to evolve into a base for multinational companies to engage in high end manufacturing and product development, and to coordinate regional procurement, production, marketing, and distribution operations. In recognition of the important contribution of foreign investment to the development of the economy, the few restrictions on inward foreign investment are limited to broadcasting, the domestic news media, retail banking, legal and other professional services, and property ownership.

• TRADE MEASURES

Singapore's import regime has relatively few border measures. Singapore's applied MFN tariff is zero, apart from six lines for alcoholic beverages, which are subject to specific rates. Singapore has bound some 70% of its tariff lines, which is unchanged from its previous Review, at an average rate of 6.9%. The gap between applied and bound MFN rates and the absence of bindings for 30.4% of tariff lines could create a degree of unpredictability for traders in

the sense that there is scope for the authorities to raise tariffs; however, applied tariffs have not been increased during the review period.

Singapore's import restrictions are based mainly on environmental, health, and public security concerns, with the exception of rice, which is subject to import licensing to ensure food security and price stability. Security, health, and environmental concerns also underlie Singapore's export restrictions and mainly involve endangered species under the CITES Convention, arms, explosives, chemicals, and radioactive materials. Singapore makes very limited use of contingency measures; it did not notify any anti-dumping measures in the review period and has no legislation on safeguards. Singapore's policy of basing its standards on international norms has continued, with around 80% of alignable standards aligned with international standards. There have been no major changes to the regulatory framework for sanitary and phytosanitary measures, although several laws have been updated. Regarding government procurement, Singapore provides additional market access concessions to its trading partners under most of its bilateral FTAs negotiated during the review period.

• OTHER TRADE-RELATED POLICIES

In the medium term, the Government is likely to continue to focus on maintaining Singapore's appeal as a destination for FDI. It has reduced the statutory corporate tax rate and continues to offer tax incentives in industries that it is trying to nurture, such as semiconductors, IT, biotechnology and genetic engineering and services. The cost effectiveness of the many tax and non-tax incentives on offer is, however, open to question.

In addition to tax measures, other instruments of Singapore's evolving industrial policy include: first, state ownership of land ensures that the Government continues to have a significant degree of control over the release and thus the price of industrial land; second, with their history of active implementation of Singapore's industrial policy, statutory boards, and the financial assistance they provide, are key players in the development of knowledge based sectors and value-added activities considered crucial for sustaining the long-term growth of Singapore in the global economy; and third, Singapore's government-linked companies (GLCs, largely consisting of enterprises in which Temasek holds shares), which although still pervasive in

many sectors of the economy, now seem to operate more on a commercial basis and less as a strategic tool of industrial policy. During the period under review, the trend towards GLCs operating increasingly on the same basis as private companies has been reinforced by further divestments by Temasek, by enhanced corporate governance regulation (which has imposed more stringent disciplines for listed GLCs), and by the enactment of an economy wide competition law, which applies in principle to all enterprises, including GLCs.

In order to maintain and develop a robust intellectual property (IP) regime to help foster knowledge based industries, attract foreign investment in knowledge-based industries, and meet commitments under its bilateral free-trade agreements and international treaties, significant improvements have been made in legislation, covering copyrights, patents, registered designs, trade marks, and plant varieties.

• **SECTORAL POLICIES**

The economy continues to be dominated by services (excluding utilities), accounting for around 66% of GDP in 2007, followed by manufacturing, with a share of about 24% of GDP. The Government believes that manufacturing should remain one of the twin engines of growth and would like to see its share at 20-25% of GDP. The share of employment in the manufacturing sector remains broadly constant at slightly over 20%. Singapore has continued to encourage manufacturing to move into high-value-added activities, primarily through the creation of supporting infrastructure and incentives. The sectoral clusters in manufacturing currently encouraged are: electronics, chemicals, biomedical sciences (comprising the pharmaceutical, medical technology, biotechnology, and healthcare service industries), and engineering (including precision and transport engineering).

Electronics and chemicals form the main manufacturing activities in terms of output, with electronics accounting for a large share of total merchandise exports. Competition from low cost producers in the region together with Singapore's rising labour costs have resulted in a gradual shift away from labour-intensive to high-value-added capital-intensive activities by deepening Singapore's technology base and strengthening knowledge-based manufacturing (and services) clusters. Incentives are provided to encourage innovation by firms operating in Singapore.

The economy is largely open as far as trade in goods is concerned and has become more open for utilities and services. In the electricity sector, state-owned companies continue to dominate, although restructuring and privatization has begun with the three leading power-generation companies due to be divested by Temasek in 2008/09. Deregulation has continued in the gas sector with the approval of non-discriminatory terms and conditions for gas transportation throughout the Singapore network; the supply of water is centrally managed by the Government at price levels considered to be reflective of the scarcity of water as a resource. A significant degree of liberalization in financial, telecoms, and professional services has been achieved since the previous Review partly as a result of several bilateral free-trade agreements.

In banking, the liberalization measures that have encouraged greater participation from foreign banks have been strengthened by improved supervisory and corporate governance frameworks in the form of new and amended legislation regarding, inter alia, the Banking Act, Deposit Insurance Act, Securities and Futures Act, Financial Advisers Act, and Trust Companies Act. Singapore has also evolved into a major regional asset management centre, attracting well recognized firms.

As a result of liberalization, the number of telecommunication service providers has increased significantly, with over 600 telecom licences awarded, albeit mainly to service-based operators. The postal sector was liberalized in April 2007, ending a 15-year monopoly in the basic mail services market by SingPost.

In transport services, the Government has put in place several long- and short term incentives to encourage growth in the sector, with a view to making Singapore a leading maritime and aviation hub in Asia. A significant development in the tourism sector was the 2005 decision by the Government to abolish its long standing prohibition of gambling and allow casinos in Singapore, in an attempt to increase visitor arrivals and bolster economic growth; relevant legislation was passed in 2006 and will provide the legal framework for the operation of two large casinos, as the main components in two integrated resorts, which are due to open in 2009/10. Singapore is continuing to build up the health services sector, particularly to attract patients from abroad, and has increased market access for certain kinds of foreign professionals, notably lawyers.