2 Recent Economic Developments in Singapore

Given its few natural resources and the high dependence of its economy on trade, Singapore is extremely vulnerable to the vagaries of the international marketplace and external economic fluctuations. Foreign capital has been and continues to be a key factor in the development of Singapore as a major international financial, commercial and trade centre. The government has effectively managed the economy within such a volatile environment through the promotion of policies supportive of the free enterprise system and favourable towards domestic and foreign investment.

These measures were successful in boosting exports, particularly of manufactured goods, to the U.S. and the European Community. The government's policies have also helped maintain investor confidence in the country's economic prospects and large capital inflows, particularly from foreign sources. Japan and the U.S. are by far the largest contributors to foreign investment in Singapore on a cumulative basis, with around 80 per cent of total investment. Total investment commitments in 1989 amounted to C$1.2 billion (a slight decrease from 1988). Of these investments, 83 per cent came from foreign sources ($1 billion). Japan and the U.S. accounted for 65 per cent of these foreign investments, while 33 per cent came from European sources. The government is also actively encouraging foreign investment abroad as a means of acquiring foreign technology, expanding export markets and, in the process, creating a pool of Singapore owned and controlled multinational corporations.

Aside from the setback associated with the economic downturn of 1985, the country has maintained high growth rates throughout the last quarter century. The economy has averaged 9 per cent in the decade to 1981 before declining gradually to -1.8 per cent in 1985. In 1987, the GDP growth surged back to almost 9 per cent and posted in 1988 its best performance in 15 years with 11 per cent. In 1989, GDP growth reached approximately 9 per cent. The manufacturing sector has led growth in the recovery period, mainly in response to international demand for computers and associated goods. Manufacturing, financial and business services, commerce, and transport and communications accounted for over 90 per cent of the GDP in 1989 (89 per cent in 1988). It should be noted that for the first time, financial and business services were the largest contributors to GDP (29.7 per cent).

Singapore is actively encouraging the diversification of the services sector in an effort to make the economy less dependent on the performance of its major trading partners. Rapid growth since 1987, however, has placed considerable pressure on labour markets, a situation which has constrained the expansion of the economy and posed a risk to Singapore's international competitiveness. The economy is expected to slow down further in 1990 with GDP growth estimated in the 6 per cent to 8 per cent range.

The rapid pace of industrialization in neighbouring countries has also added pressure to the competitiveness of Singapore and has heightened the need for Singapore to promote new high value-added manufacturing ventures. Export competitiveness through the upgrading of productivity will therefore remain a key concern of the government and will continue to guide its policies in the area of employment, industrial development and financial and fiscal management. Recent efforts to privatize a number of government-controlled enterprises appear to be in line with these policies.