Singapore from taxation, and allowing a tax-exempt flow-through to shareholders.

4. Exempting from taxation up to 90 per cent of the income earned through the export of qualifying services, such as consultancy, management, construction, technical and engineering services.
5. Allowing 20 per cent of corporate taxable income to be held as a research and development reserve which will be tax-exempt if spent within three years.
6. Reducing by 12 per cent the wage costs of all employers through a reduction in mandatory pension scheme contributions.
7. Encouraging unions and employers to negotiate for no increase in overall wage levels in 1986 and 1987, with the public sector taking the lead.
8. Reducing the costs of doing business in Singapore through statutory board charges (e.g., postal services, telecommunication charges, industrial land and facilities rentals).

As a result of these decisive measures and an increase in external demand caused by improving economic conditions in the U.S. (Singapore's most important trading partner) and other western countries, Singapore's economic recovery in 1986 was more rapid and stronger than expected. After four consecutive quarters of contraction, real GDP growth turned positive in the second quarter of 1986 and strengthened thereafter. For 1986 as a whole, the economy expanded by 1.9 per cent, in contrast with earlier expectations of negative or "no" growth. The Development Bank of Singapore predicts that 1987 prospects are good with a moderate but sustained improvement in overall economic performance expected.

In the longer term, Singapore's economy will have to adjust to the increasingly restrictive policies of its regional neighbours, and to the prospect of a more protectionist international trade regime. Domestically, there are long-term adjustments required in the maritime and petroleum industries to counter a worldwide glut in both sectors. The massive oversupply of new buildings will take years to work off, continuing to depress the construction industry. Although Singapore's high wage policy has ended, average wage costs are still higher than those in the other "minidragons" — Taiwan, Korea and Hong Kong.