

a number of trends affecting both external and domestic demand, and no matter how explicable in hindsight, it was a shock to Singapore's system — particularly since Singapore was the only "Asian minidragon" to register a GDP decline. Key industries, such as oil and marine-related industries, were adversely affected by a structural change in global supply and demand. The international competitiveness and profitability of Singapore companies was eroded by rapidly rising operating costs, particularly labour costs. Fiscal policies were partially responsible for a decrease in domestic demand, which was aggravated by a spectacular drop in construction activities following the completion of major private sector projects and the scaling down of the public housing program.

The only bright spot in the otherwise gloomy 1985 picture was in the international services sector. This sector, which includes transport, communications, banking, and financial and business services, was largely responsible for propelling GDP growth in the first half of the Eighties. Taken as a whole, these services grew by about 14 per cent annually from 1979-1984, and by 1984 accounted for 33 per cent of GDP. Growth for 1985 was 3 per cent.

Faced with such a dismal picture, the government set up an Economic Committee to review the economy and recommend corrective action. The Committee's report, *The Singapore Economy: New Directions*, was issued in February, 1986.

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To restore vitality to the ailing economy, the Economic Committee recommended some substantial changes, such as the following, which are now in effect:

1. Reducing tax revenues in 1986 by more than \$750 million (Cdn), through, among other things, a reduction in the corporate tax rate from 40 per cent to 33 per cent and a reduction in the top marginal rate for personal tax to 30 per cent.
2. Granting an accelerated initial capital depreciation allowance of 100 per cent in certain cases, or an annual allowance of 33.3 per cent for three years in other cases.
3. Exempting the foreign income of operational headquarters and regional holding companies located in