

TRADE POLICY REVIEW

SINGAPORE

Report by the Secretariat

This report, prepared for the second Trade Policy Review of Singapore, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Singapore on its trade policies and practices.

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Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Singapore.

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SUMMARY OBSERVATIONS**(1) Singapore in World Trade**

1. Singapore's continuing rapid economic development over the past four years owes much to its open trade régime, prudent, clearly directed economic management and its position in the centre of a dynamic regional market. Political stability and a well-developed infrastructure combine with very high rates of savings and investment and attractive investment incentives to make the economy one of the strongest in the world.

2. Economic growth has accelerated since 1992, with real GDP increasing by over 10 per cent a year during 1993 and 1994 and unemployment at less than 3 per cent. Substantial budget surpluses and a high private savings rate unite to give a considerable excess of savings over domestic investment; this is counterbalanced by growing overseas investments. Tax policy seeks to lower income tax rates and minimize disincentives while attracting foreign investment through tax concessions. Prudent monetary policy and the appreciating Singapore dollar have kept inflation low, despite rising unit labour costs. Led by external demand, Singapore's ratio of trade in goods and services to GDP has grown strongly over the last decade, and now exceeds 500 per cent. Export-oriented manufacturing and services have been the two engines of growth.

3. The main constraints on Singapore's expansion continue to be its size and limited resources. Strong economic growth has led to rising costs of production such as rentals and labour costs. The authorities, who regard a rate of 7 to 8 per cent as Singapore's long-term real potential, are acting to overcome these bottlenecks in various ways, including promotion of education and training, employment of more part-timers and older persons, encouragement of research and development to upgrade technology, and reclamation and other infrastructural work.

4. Singapore's current account has been in surplus since 1988; the trade deficit has been financed by a surplus on services account, mainly from travel and shipping receipts, financial transactions and net investment income. International reserves have increased steadily. In recent years, the share of mineral fuels in total trade has decreased, while those of electronic products and components have grown. The share of intra-industry trade in the total increased from 56 per cent in 1985 to 72 per cent in 1994, reflecting the growth of the electronics and electrical engineering industries. ASEAN is Singapore's largest export market, accounting for 28 per cent of its total exports in 1995; two-way cross-border trade with Malaysia has grown significantly.

(2) Legal and Institutional Framework

5. Singapore has a parliamentary system of Government, with executive authority exercised by the Cabinet, chaired by the Prime Minister. Policy formulation is undertaken by the Ministries, with advice and many aspects of policy execution channelled through statutory boards linked to main ministries. The Senior Minister advises Ministers on any of the subjects under their charge.

6. The Ministry of Trade and Industry (MTI) is mainly in charge of the formulation of trade policy; the Singapore Trade Development Board (TDB) is responsible for the implementation of trade policies and programmes for trade development, while the Economic Development Board implements policies on investment incentives. The Department of Customs and Excise, under the Ministry of Finance, administers the collection of duties on international trade and excise duties. Service-related policies are divided among a number of Ministries and statutory boards, although the MTI and the TDB are the co-ordinating agencies for negotiations under the GATS. A well-established structure exists for regular consultation on economic and trade policies between the Government and the private

sector; a panel of leading international businessmen, the International Advisory Council (IAC) was formed in 1995 to advise the Government on economic strategy.

(3) Trade Policy Features and Trends

(i) Multilateral trade policies

7. Singapore is a founding member of the WTO, and played a leading rôle in the Uruguay Round negotiations. Although most goods enter duty free, previously almost no industrial tariffs were bound; as a result of the Uruguay Round, Singapore has increased its tariff bindings from 0.5 to nearly 70 per cent of tariff lines. The simple average of bound rates across all sectors is 7.4 per cent. Singapore's bindings on industrial products will increase from near zero to 65 per cent of all lines, and its average bound rate on industrial products, on a trade-weighted basis, will decline from 12.4 to 5.1 per cent.

8. Singapore intends to implement the TRIPS and Customs Valuation Agreements within the permitted transition period for developing countries. Thus, for Singapore, obligations under these Agreements will come into force in January 2000. Singapore provides both civil and criminal avenues for the enforcement of intellectual property rights. Civil remedies may be sought in court at the discretion of the intellectual property right owners. The police assist intellectual property right owners to execute search warrants in copyright and trade-mark cases to recover incriminating evidence. Singapore is negotiating accession to the Plurilateral Agreement on Government Procurement.

9. In practice, Singapore largely pursues free trade in goods. Since the last review, with effect from January 1994, import duties on 406 items were abolished. Currently, more than 98 per cent of tariff lines in Singapore have duty-free treatment; only liquor, tobacco, petroleum products and motor vehicles are dutiable. The share of customs and excise duties

in government tax revenue decreased to 8.4 per cent in 1994.

10. Import licensing and control provisions are maintained mainly to discharge Singapore's obligations under international commitments or for public health, environmental, and security considerations. Imports of products subject to import licensing in 1994 amounted to 6 per cent of the total.

11. Standards and standard-setting processes are in line with those practised internationally. Stringent sanitary and phytosanitary regulations are maintained to safeguard Singapore's sanitary status. Government procurement guidelines do not provide for domestic preferences, except those agreed under the ASEAN Preferential Trading Arrangements. Singapore does not maintain any local-content schemes.

12. Singapore does not impose any duties on exports. Export control measures are mainly enforced for public health, security and environmental considerations or to fulfil international commitments. Singapore also currently maintains four bilateral export restraints covering textiles and clothing.

13. Duty drawbacks are not used. Corporate tax concessions may be granted to exports by manufacturing and service companies. Though the Monetary Authority of Singapore provides assistance through a rediscounting scheme to exporters for short-term financing, this is not a major component of export financing. No export credit guarantees or insurance schemes are maintained; nor does Singapore impose export performance requirements. To promote exports, the TDB provides information on market intelligence and business opportunities to Singapore exporters. Singapore benefits from GSP treatment mainly in the EU, Japan and Canada; in 1995, Singapore exported goods worth about US\$4.5 billion under preferences provided through the GSP, more than double the level

of 1990. Singapore is a member of the GSTP. Some of Singapore's exports have also been subject to trade remedy actions in certain overseas markets.

(ii) Regional trade policies

14. Singapore is a member of ASEAN, whose members agreed in 1992 to establish the ASEAN Free Trade Area (AFTA) by 2008 (subsequently, in 1995, accelerated to 2003) and introduced the Common Effective Preferential Tariff (CEPT) in 1993 as the core mechanism for implementing AFTA. Origin criteria to qualify for tariff preferences under the CEPT Scheme require a minimum of 40 per cent ASEAN content. The coverage of AFTA has also been expanded to include unprocessed agricultural products and ASEAN economic cooperation has been extended to the fields of services and intellectual property.

15. Singapore is also a member of the APEC Forum. Under the 1994 Bogor Declaration, APEC is to achieve full and open trade and investment in the region by 2020. The APEC Osaka summit meeting in 1995 resulted in the announcement of specific "down-payments" of initial actions to liberalize and facilitate foreign trade and investment.

(iii) Trade and investment policies

16. Singapore's rapid economic growth has been assisted by massive foreign direct investment inflows; in 1993, foreign-owned companies accounted for about 85 per cent of direct exports of the manufacturing sector. Tax and non-tax incentives are granted to foreign and local firms alike. Singapore law generally makes no distinction between domestic investment and foreign investment; however, limitations on foreign ownership exist in telecommunications, financial services and the national airline.

(iv) Sectoral policies

Agriculture

17. Agriculture is of very limited significance to the Singapore economy, representing only 0.2 per cent of GDP. Approximately 90 per cent of food consumed in Singapore is imported. In 1995, food, beverages and tobacco accounted for 4 per cent of total imports. Tariffs are imposed on tobacco products and liquor only. With the exception of rice, there are no quantitative import, export or domestic sales controls on agricultural products; however, Singapore maintains a system of strict sanitary and phytosanitary requirements implemented through import licensing.

Industry

18. The manufacturing sector performed robustly during the 1990s, increasing its share of GDP to some 25 per cent, with trade growing slightly faster than production. In the face of increased labour costs, lower value-added activities have been giving way to higher value-added ones, while labour-intensive operations have gradually moved overseas to lower labour cost countries. Overall industrial performance was boosted by strong growth in electronics, with increasing intra-industry trade.

19. Major manufactured exports are electronics, petroleum products and parts for office and telecommunications equipment. Most manufactures are imported duty free; only motor vehicles and motor cycles are dutiable. The main imports are electronic components, crude petroleum, data processing machines and telecommunication equipment. Imports of crude petroleum accounted for 6 per cent of the total and petroleum products represented 8 per cent of merchandise exports. Trade in petrochemicals, seen as a key sector in Singapore's future manufacturing development, increased continuously in the early 1990s, representing approximately 6 per cent of merchandise trade in 1994. During the 1990s, textile imports have outpaced textile exports, and

the earlier surplus in clothing trade became a deficit in 1994.

20. *The authorities have selected 14 industrial clusters, comprising more than two thirds of GDP, for investment in strategic projects. Many government agencies or statutory boards act, through their own investments in some activities, as catalysts to industrial development in the clusters. The Skills Development Fund provides financial incentives to employers for the development of skills and expertise. The Task Force on Institutional Reform for Productivity and Quality Improvements was set up in 1995 to promote greater productivity and quality.*

21. *Assistance, largely given through tax incentives, is largely aimed at supporting new projects leading to technological development or higher value-added activities. Companies with pioneer status may be exempted from corporate tax for a period of five to ten years. As a post-pioneer incentive, a reduced corporate tax rate of 15 per cent may be granted for a further 10 years. Loans and technical assistance are extended to small and medium-sized local enterprises to purchase machinery and premises. Price controls apply to water and basic telecommunications.*

Services

22. *Services contribute more than 60 per cent to Singapore's GDP. Their overall growth has been underpinned by rapid expansion of finance, transport and telecommunications. These sectors have also led productivity growth; value-added per employee in the financial sector was three times the average in 1994, while that in transport and telecommunications was 1.6 times the average.*

23. *Singapore is a major tourist destination; the balance of travel has recorded continuous surpluses over the past decade, though the share of this surplus in GDP decreased during the early 1990s. The contribution of transport and*

communications to GDP between 1990 and 1994 was approximately 12-13 per cent on average. Singapore has one of the best port facilities in the world, and is developing rapidly as an aviation and maritime hub; continual improvements are being made to harbour facilities and customs clearance provisions. There are no restrictions on foreign equity participation in the shipping sector; nor does Singapore apply any restrictive trade policy instruments to maritime services nor any subsidies to the domestic shipping industry. No preferential treatment is granted to either domestic or foreign carriers and there are no obligations on domestic operators to employ specified carriers for specified transport. Air traffic regulations, including fare structures, are also relatively liberal, subject to bilateral agreements. To alleviate domestic land traffic congestion, the Government regulates private vehicle numbers through ownership measures such as the Vehicle Quota System.

24. *Provision of telecommunication services is in most cases subject to licensing by the Telecommunications Authority of Singapore. All telecommunication services regarded as vital in promoting industry, infrastructure and businesses are subject to regulatory price control. Under its public telecommunication operator's licence, Singapore Telecommunications, privatized in October 1993, has the exclusive right to provide certain basic telecommunication services for a while. Foreign shareholding in Singapore Telecommunications is limited to 40 per cent; for telecommunication services in which competition has been introduced, the TAS also limits foreign equity participation to 49 per cent.*

25. *Financial services accounted for 12 per cent of GDP in 1993. The Monetary Authority of Singapore (MAS) is responsible for the formulation of financial services policies and regulation of the sector. There is a marked dichotomy between the treatment of domestic banking and insurance, where no new entrants are permitted, and the liberal treatment*

accorded to offshore operations. The prior approval of the MAS is required for acquisition of shareholdings of 5 per cent or more in banks incorporated in Singapore; a single or related group of foreign shareholders may only hold up to 5 per cent of a local bank's shares, while aggregate foreign ownership of domestic banks is limited to 40 per cent and in locally owned finance companies to 20 per cent. Foreigners may own up to 49 per cent of money-changing and remittance businesses; however, there is no limit on foreign ownership of money-broking companies. Foreign firms may have international membership in the Stock Exchange of Singapore with 100 per cent foreign equity.

26. The Public Accountants' Board of Singapore recognizes the major professional qualifications for accountants and actuaries. Foreign seafarers holding valid and appropriate certificates issued by their countries are permitted to serve on Singapore-registered vessels. Some professional service providers such as engineering, land surveyors and architects may apply for registration in the appropriate boards in Singapore.

(v) Emergency measures

27. No import relief has been granted in the form of safeguards or countervailing measures. Anti-dumping duties were imposed on the imports of certain steel reinforcing bars from Malaysia and Turkey in 1995.

(5) Trade Policies and Foreign Trading Partners

28. Singapore is already at a level comparable to many developed economies in terms of GDP per capita, and growth of GDP is among the highest in the world. In the 1990s, Singapore aims to further develop the population's education and skill level, range and sophistication of economic activities, and improve the level of productivity and standard of living. To achieve this goal, the Government plans to invest heavily in education, training and re-training and aims to raise the proportion of the young age group with post-secondary training to 85 per cent by the year 2000. Singapore is currently studying the issue of accession to the OECD.

29. Foreign trading partners have benefited from Singapore's open and non-discriminatory trade régime. The increased tariff bindings agreed in the Uruguay Round are an added guarantee of access to Singapore's market. With very high reliance on international trade, Singapore's economic performance remains crucially dependent on an open and predictable international environment. Accordingly, Singapore's economy stands to benefit from the strengthened trade rules and import liberalization measures established under WTO provisions.

