

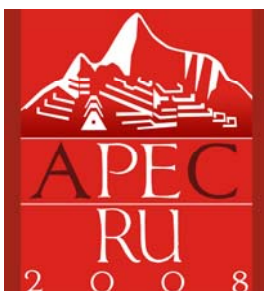


**Asia-Pacific
Economic Cooperation**

2008/SOM3/016anx3
Agenda Item: IV

Presentation by Economy Under Review - Singapore

Purpose: Consideration
Submitted by: APEC Secretariat



**Third Senior Officials' Meeting
Lima, Peru
22-23 August 2008**

Singapore

APEC IAP Peer Review - 21 Aug 2008



Ravi Menon
APEC SOM Leader for Singapore

Singapore:

One of the most open economies

- **Ratio of Trade to GDP: 350%**
- **Zero tariffs, apart from six lines of alcoholic beverages**
- **No export subsidies**
- **No import quotas**
- **No capital controls**
- **No restrictions on foreign investment**

One of the freest and most competitive economies

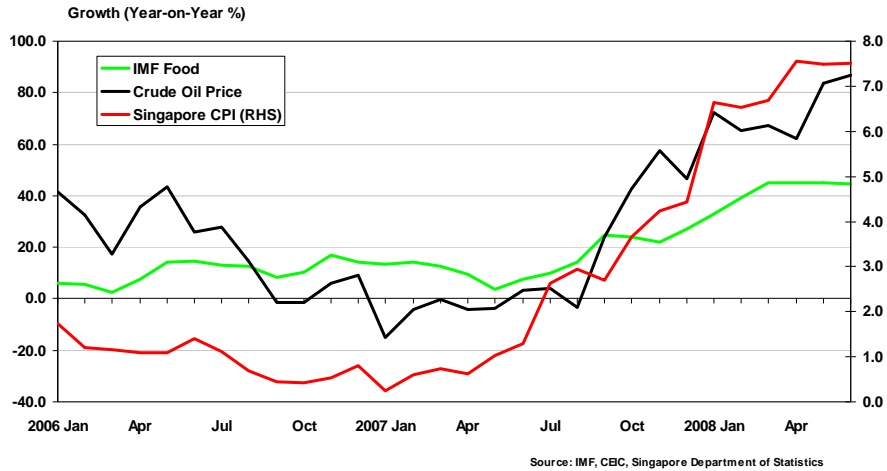
- **Easiest Place to Do Business** (2006/2007), *World Bank*
- **Most Globalised Economy** (4 out of last 7 years), *Foreign Policy*
- **2nd Most Open to Global Trade and Investment** (2008), *WEF*
- **2nd Freest Economy** (last 13 years), *Heritage Foundation*
- **2nd Most Competitive Economy** (2008), *IMD*
- **7th Most Competitive Economy** (2008), *WEF*

BUT...

Not immune to challenges posed by globalisation



External shocks quickly transmitted to domestic economy



Strong competition from lower-cost producers



Labour Costs

(per worker per hr)

Singapore – US\$8.00

Malaysia – US\$2.70

China – US\$1.00

Thailand – US\$0.90

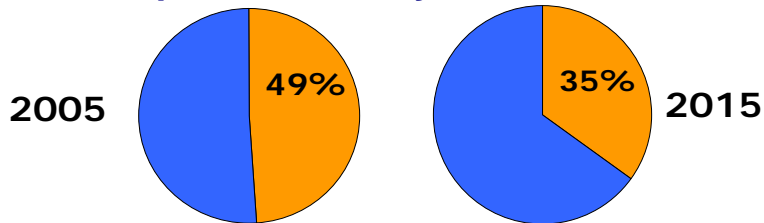
India – US\$0.70

(Source: IMD World Competitiveness Yearbook)
(Unadjusted for productivity)

Low skilled workers are vulnerable ...

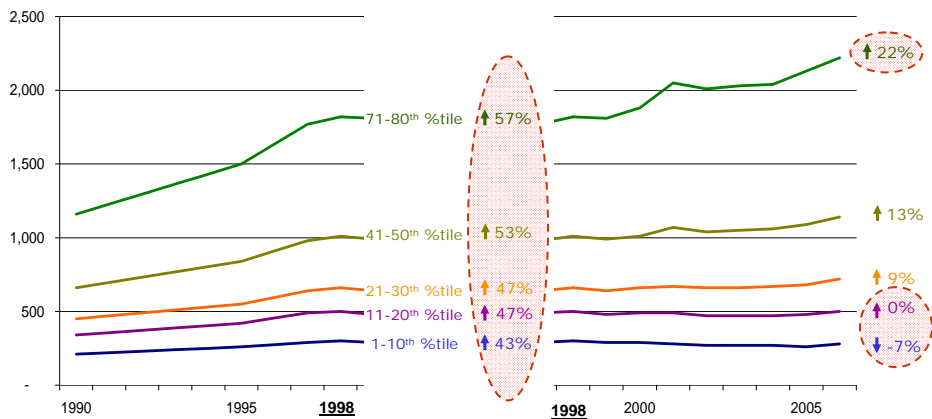
- An open economy
- Offshoring and technological change →
- Significant number of low-skilled workers
- Median wages stagnant
- Declining low-skilled wages

Proportion of labour force without post-secondary education



... and income inequality is growing

Real average monthly income (\$) from work per household member



Singapore's response to challenges of globalisation

1. macroeconomic stability

2. new capabilities

3. competition/enterprise

4. services liberalisation

5. opportunity society



Opens pathways to achieving Bogor Goals



Maintain sound and conducive macroeconomic environment



- **Monetary policy**

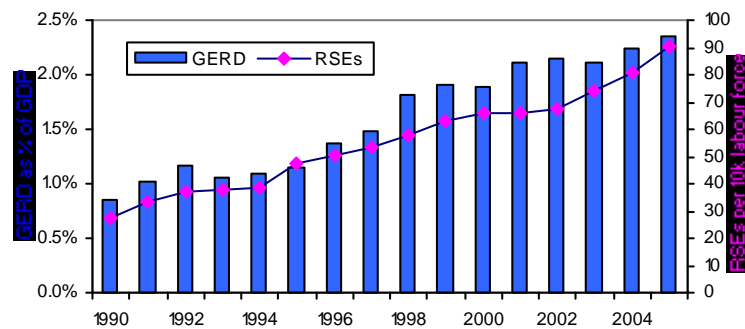
- modest appreciation of the exchange rate to dampen inflation

- **Fiscal policy**

- restructure tax system away from direct to indirect taxation to enhance competitiveness
- invest in economic infrastructure
- maintain fiscal prudence and sustainability

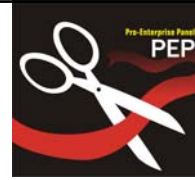


Building new capabilities – like R&D



- Increase Gross Expenditure on **R&D** (Target: 3% of GDP)
- Attract foreign talent and develop local pool of talent
- Proportion of Researchers, Scientists and Engineers in the labour force has almost tripled since 1990.

Strengthen competition, Promote enterprise



- **Set up Competition Commission**
 - **Competition Law:** applies to all natural or legal persons capable of economic activity, including government-linked companies
- **Facilitate trade and investment**
 - **Customs:** revamped website providing one-stop platform for all trading transactions; 90% of transactions within 10 minutes
- **Encourage innovation and enterprise**
 - **Intellectual Property:** IP laws amended to include many TRIPS plus areas
 - **Pro-Enterprise Panel (PEP: Public-private sector panel to consider all suggestions from business (1,700 suggestions since 2000, more than 50% accepted)**

Accelerate services liberalisation

- **Telecommunications**
 - All contestable segments fully liberalised
 - Removal of all foreign investment limits
 - Wide choice of service providers
 - International call rates fell by more than 90% since 2000
- **Electricity and Gas**
 - All contestable segments fully liberalised
 - 75% of total electricity demand opened for retail competition
- **Air Transport**
 - Open skies agreements with more than 20 partners
 - 75 foreign carriers and 3 ground-handling operators (2 fully foreign-owned)



Accelerate services liberalisation

- **Legal Services**

- Ongoing liberalisation; few restrictions on foreign lawyers except for the practising of S'pore law
- Reviewing and expanding list of accredited foreign degrees

- **Financial Services**

- Securities and Insurance: Fully liberalised
- Banking: Only remaining restrictions are in retail deposit-taking.
- Phased liberalisation in view of foreign banks being allowed to operate as branches with no capital requirements.
- Competitive financial sector with foreign banks having more than 50% of total banking system assets and liabilities

Create an opportunity society

- **Home ownership**

- Heavy subsidies and grants for housing; 90% home-owning society; source of financial security

- **Worker retraining**

- Skills upgrading; Job redesign; Workforce skills qualification system

- **Health and education subsidies**

- 97% of primary, secondary, post-secondary education subsidised by government
- Healthcare subsidies of up to 85% for hospital beds targeted at lowest income groups through means test.

- **Wage supplementation**

- Supplements conditional on work for bottom 30% of workers

Focus on opportunity, not equality

“... the issue is not how much inequality there is, but how much opportunity there is for the individual to get out of the bottom classes and into the top.

If there is enough movement upward people will accept the efficiency of the markets. If you have opportunity, there is a great deal of tolerance for inequality.”

Milton Friedman, 2006

Thank You

