Introduction:

Singapore is a small size country with only 737sq. km and 3.2 million population. As a result, it only has a small size domestic market and local companies. The Local government has high incentive to attract massive foreign investment to explore domestic market. Due to different cultures involved, the main languages are English, Chinese, Malay, and Tamil. Its currency’s value is S$1.695:US$1, S$2.72: 1. Moreover, in history, Singapore doesn’t have a “two gap” problem on its economy since it has economic aids and foreign assistance to solve it.

Nowadays, Singapore is one of the high performing Asian economies (HPAEs) and industrializing East Asian economies (NIEs). Its speed and pace of industrialization had threatened the industrialized world e.g. Japan, Europe, etc... by increasing export. Comparing with other Asia Pacific countries, Singapore’s growth rate is 11.81% (only has a negative growth rate in 1985-86). High growth rate is backed up by the local highly industrialized economy, and agriculture and mining are of only minimal importance. Financial and business services have grown in importance in recent 10 years. The most important manufacturing sector is electronics: disk drives, and other electronic products accounted for 52.1% in total manufacturing products.

The local government and private sector has also put emphasis on wafer-fabrication plants. Furthermore, oil refining and chemicals have long been important industries, and a significant pharmaceuticals sector has emerged since 1997. Singapore’s industrial base is dominated by foreign multinationals and a few large domestic firms with strong government links. Small and medium-sized enterprises play only a minor role which are encouraged by government.

Why I choose Singapore?

Singapore, one of “four Dragons” in Asia-Pacific region, has a special historical, political, social and economical background among other economies. It has a lot of government intervention (began from 1967), including policies and state involvement in private companies. Moreover, there are population movements, mainly ethnic Chinese from Malaysia and Indonesia, but the economy was still stable and did not suffer any civil unrest. Singapore’s economy is the most important part I will present in the study. It has a special and unique external sector and fiscal account that have a link towards the global economics world as Singapore is a export-led country. Government expenditure and foreign investment are playing a vital role in its local economy. They not only create a growth conducive circumstance for private enterprises but also make aggressive investment occurred in public infrastructure and human resources development. I would like to focus on national account and Balance of Payment in the following parts. We would take a continue snapshot basis
to analyze the Singapore economy.

**Analysis about National account and Balance of Payment account**

- **National Account**

  Refer to EIU country report and IMF statistics, household expenditure, government, investment (capital formation), and net export has increased from 1990-1999. GDP increase from 67,879 million to 143,981 million. However, there is Asia Financial crisis in 1997-1998, there is a decrease in this two years, affecting the export sector and capital formation in different condition (refer to diagram 1).

  Household expenditure falls from 56,485 million to 54,621 million. (51.3% to 45.4%) Government expenditure falls from 131.80 million to 14,848 million (11.97% to 12.34%). Investment fails from 54,549 million to 51352 million (49.42% to 42.68%). Net export, however, raises from 18,156 million to 27190 million (16.49%to 22.6%)

  **Household expenditure** has a great proportion in the GDP accounting. It is because under a good economical and political atmosphere, household is willing to spend and buy services and goods. Moreover, GDP per capita raise from 23,492 (3rd in the world) to 26,976 (2nd in the world) from 1994-1999. Citizens have more income to spend and save. While the ability and opportunity to save has increased whereas income raises, more inputs (money) are flowed to investment domestic and foreign market. At the same time, more willing to spend speed up the local consumption expenditure that brings aggregate expenditure increased. Backed up by good infrastructure, the survival cost is lowered. Thus, investment and consumption raise in this period. Household expenditure has raised in percentage (49% to 51%) in 1993-97 while mostly it keeps in 45 to 47%. However, private expenditure doesn’t contribute a lot to recent economic growth. It is because the citizens put a lot of income on saving which in turns invest. The rapid growth are mainly denominated by investment and export before Asia Financial Crisis. But after the crisis, the investment are contracted but household expenditure are expanding which is mostly transport equipment, non-residential building and investment in machinery and equipment.

  **Investment/Capital formation** is calculated to raise from 21878 million in 1990 to 54549million(peak) in 1997 to 46771 million in 1999. There is some difference from other three dragons. It is under control by the state and foreign investment while Hong Kong takes the laissez-faire approach and non-intervention policies. South Korea is supported by U.S. foreigners. At the same time, Taiwan’s investment are
mainly owned by the state. Those two issues lead to in 1995, economic Committee also recommends that the Singapore economy to move beyond merely a production base, and aims to attract foreign companies to establish their regional headquarters in Singapore. In 1990, when Mr. Goh Cok Tonk took over power from Mr. Lee Kuan Yew, a ten year program known as “the next Lap” in the form of the strategic Economic Plan (SEP) was adopted to prepare Singapore for the tougher competition among the most advanced nations. The aims are to attract foreign investment and maintain a 5% GDP growth rate in local places, just like Multi- Fibre agreement. Eight areas has been identified: human resource, teamwork, international orientation innovation, manufacturing and services clustering; economic redevelopment, international competitiveness, and reduction of vulnerability. Capital formation has raised a lot in 1997-98 about 2 to 3% since Asia Financial Crises has damaged Japan, Thailand, Indonesia, Hong Kong, and Taiwan, etc. while Japan has a long time balance surplus due to increase in money supply. The domestic real estate has collapsed (fundamental-based Hypothesis) and then Japan started to cut the Foreign Direct Investment in the Asia region. More worse, PRC’s RMB has devalued in these years which search the export to ASEAN and 4 Dragons to PRC. Since herd reaction has occurred (Financial Panic hypothesis), foreign investment outflows and find the stable economic condition, Singapore, comparing with other Asia countries, Thus, capital inflow occurs.

Capital formation involved three parts, construction and works, transport equipment, and machinery and equipment. We can divide investment into few parts, state foreign and local investment. Foreign investment are involved about 78%. There are Central Provident fund which act as local investment. Both employers employees pay contribution into Singapore’s Central Provident and Each individual holds two or three separate CPF accounts. Of the total 40% of salary paid in for a worker up to 34 years old, 30% goes to his Ordinary account, 6% to his Medisave Account, and 4% to his Special account. Funds held in Medisave accounts can be used to pay for medical expenses incurred by the CPF member or his dependants at government, restructured or approved private hospital. In addition, a member can subscribe to Medishield insurance scheme, which provide more money to cover expenses arising from treatment for serious illness, or lengthy stays in hospital.

Foreign investment among export and borrowing from foreigners are essential in Singapore. Since Singapore’s manufacture good are mainly high-tech. Products which has a high rate on writing off. Since 1995, CPF members are allowed to invest
in approved CPF unit trusts, made up of foreign shares and bonds traded on the Singaporean stock Exchange. Richer people can decide instead to open fund management account to invest shares in foreign regional market. From the start of 1997, the approved unit trusts can also venture on the regional market. More important, in 1999, they can incorporate shares traded on a number of stock market outsides Asia. At this money, the proportion of investing in foreign market are raised to 40% in 1997. The DBS bank, post office and domestic financial houses can provide different financial services. Refer to notes from Asia-pacific economies, while bank and non-bank sector has developed well and provide good network for investment. Thus, Foreign investment will be attracted. Actually, the reason that number of foreign investment inflow in Singapore is encouraged by Government friendly policies. For example, government provide good infrastructure and tax incentives. The foreign investment is 77.8% in total amount of Singapore investment sector. Around 57% of foreign investment commitments in 1999 came from the U.S. Foreign investment is largely directed to invest in electronic products and components or chemicals. The income from abroad and the investment expenditure shown in Diagram 1 and 2 are raised a lot.

Government is paying attention to take stock-market reform that lead the way. Development in the stock market will remain extremely important. in 1991, strategic Economic Plan first released. Set out government’s long term goals, and establish industry” clusters” to coordinate development efforts, in 1993, range of incentives introduced to encourage outward investment. A shift of official focus on the Malaysia-Indonesia growth to China, India and elsewhere. in 1994, a 3% goods are services tax (GST) introduced, with compensatory reductions in direct taxation. In 1995, individuals are allowed to invest Central Provident Fund savings approved unit which are made up of foreign stocks and shares trade in Singapore. In 1997, following the start of the regional economic crisis, the monetary authority of Singapore (MAS) does not try to stop the Singapore dollar depreciating sharply against the Us dollar.

in 1998 a supplementary budget, passed in July, suggested the economy’s problems would pull down government revenue and lead to a government budget deficit. In 1999, the government announces substantial liberalization of the banking sector. The domestic banking sector would be rationalized, and greater foreign involvement allowed. Moreover, government holds stakes in firms indirectly through anumber of agencies. The government of Singapore investment Corporation (GIC) is principally responsible for investing Singapore’s large foreign reserves oversea.
Such policy improve the financial institution not only attract FDI but also provide opportunity and encouragement to citizens to invest in foreign market in turns they can have export back (according to Product life cycle). When Singapore achieve standardized product stage, citizens will invest overseas and then get back increase in export. In fact, the primary income from abroad has raised a lot from 1990 to 1999, 467 million to 10,687 million. Such policy has boomed up the economy of Singapore. (diagram 3 and 4)

**Government sector expenditure** are kept in 10% of GDP among these ten years. In nominal value, government expenditure are raised from 6780 million to 13967 million. Those government expenditure are mostly used for building infrastructure, e.g. transport networks but not on transfer payment.

**Net export of good and services** has increased from 5899 million to 18472 million from 1990-1996 then drop little to 17,149 million in 1997 and raise again to 21,149 million. The % of Export in GDP is increased steadily 8.69 % (1990) to 17.97 % (1996) to 15.51 % (1997) to 21.55% (1998). It is a surplus account the strategy remains to export as much as impossible and to put very few barriers in the ways of imports. after 1994 GATT agreement, Singapore removed a further bundle of items from its tariff list, turning an already free-trade regime into a very liberal one. Economic policy is also little affected by individual bilateral trade imbalance. The USA, for example, appears unconcerned at the trade surplus Singapore has with it, probably because a high proportion of Singaporean exports come from US-owned companies, from 1990 (20.3%) to 1999 (19.2%), import are 21% to 17%. Japan is the second larger exporting and importing country. It is because Japan has a large domestic market but also Singapore need to import foodstuff and some manufacturing components. Against H.K, Singapore has a lot of re-export to China, therefore, the % of total export to HK are maintaining in a high percentage. In the part of Malaysia, the export included mostly re-export and also oil. We can see that the region of export and import are covering a lot of countries including Asia countries, but also U.S. Comparing with current account in Balance of Payment, current account always keep surplus from 1990 to 1999. We can find that the re-export to China has played a vital role than before.

Let us focus on Balance of Payment and compare it with National Account.

Singapore is an export-led country. In the current account, we can see that the current account which involved export and import raised from 3,119 billion to 21,254
billion in 1990 to 1999
Service, good and income account keep surplus from 1990 to 1999 which cover the capital account deficit. Actually, Export and import growth was rapid in the mid-1990s, boosted by the success of the electronics sector and Singapore’s growing importance as a port and regional center. Up to 1997, the merchandise current account remains constant and surplus. However, 1997-1998 AFC occurred. It lead to a contraction of imports (refer to diagram 1 and 2) the current account export has raised from 29,670 billion in 1990 to 30,217 billion in 1998 due to the AFC. But the travel account includes tourism contracts to 18,927 billion in 1999. While import is raised in 1995 to 1997 from 17,791 billion to 19,107 billion but fall to 17,490 billion in 1998.

Capital flow (capital account) is raised from 1990 to 1999 without stop, 22 to 191 billion. In 1998, Singapore started to present capital-account data in a more detailed way, closer to the version of IMF. Divided the account to portfolio and divided investment. We can see the these figures show relatively small net inflows of direct investment funds in 1998 to 1999, but larger and more persistent net outflows of portfolio investment over the past few years, as Singaporean investors have sought better returns overseas. Comparing with the investment expenditure in national account, we can find that both of the account raised from 1990 to 1999, (Diagram 1 and 2 in national account and diagram 3 and 4 in BOP account.) Thus, we can see that the level of foreign investment in local market is high as well.

Actually, as we talked before, Singapore’s export mainly depended on electronic products. They includes office machines, electric motors and resistors, radio and television parts (56% of Export in 1999) it estimates that high-technology has changed a lot, the demand of electronic products, especially, disk drives, may be decreased which will make a serious problem on Singapore economy.

**Conclusion**
Singapore economy is backed up by role of government and foreign investment. Government has carried out a lot of policies and foreign investment injected in 1990 to 1999. the GDP and current account have increased steadily in these years, although there are a drop in export in 1995-6 due to AFC. Since Singapore has a high-tech skill, and well industrial base to back up the tertiary industry, it will develop well if it can connect to the trade and find the economic opportunity from PRC. In fact, PRC will become the flying Geese in the next generation and invest back to the near countries.
Data and Diagram

- National Account
  Diagram 1: GDP from 1990 to 1999
  Diagram 2: net income from abroad from 1990 to 1999
  Diagram 3 and 4: employment level from 1990 to 1999
  Diagram 5: % of total export from 1993 to 1999
  Diagram 6: % of total import from 1993 to 1999

- Balance of Payment
  Diagram 1: Trade balance
  Diagram 2: Service and good account
  Diagram 3: Capital account
  Diagram 4: Investment abroad

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