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THE EFFECTS OF GLOBALISATION ON SINGAPORE'S MERCHANDISE TRADE

16-18 November 2009, OECD Headquarters, Paris

Item 9.3. of the Agenda. For discussion.

This paper analyses Singapore's relative position among the top trading nations of the world. The paper concludes with an examination of the negative effects of globalization on Singapore, especially with reference to the current economic downturn. Delegates are invited to comment.

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THE EFFECTS OF GLOBALISATION ON SINGAPORE'S MERCHANDISE TRADE

Introduction

The past two decades have seen the effects of globalization on international trade, with trade liberalization and deregulation leading to borderless trading in goods and services. Trade liberalization contributed to the rapid growth of trade, especially in the 1980s.

Since Singapore's independence in 1965, it has recognized that it is handicapped by the lack of natural resources and a small population and thus, a small domestic market. Singapore's major asset is its strategic location in the Straits of Malacca and its connectivity to key Asian markets. Historically, as a British colony in the nineteenth and early twentieth centuries, Singapore was an entrepôt for the exchange of raw materials from Southeast Asia (mainly Indonesia and Malaysia) for European merchandise. However, recognizing that simply concentrating on being an entrepôt would not be adequate in sustaining its growth, Singapore embarked on an export-oriented industrialization growth strategy beginning in the 1960s. In the following decades, Singapore combined an export-focused economic development strategy with foreign direct investment aimed at attracting both the production facilities and also regional headquarters of multi-national companies. Globalisation supported the success of this twin strategy; with trade liberalization opening up markets across the world. This strategy yielded dividends and the growth of trade outpaced that of world trade growth.

Against this backdrop, this paper analyses globalization and its effects on Singapore's trade. Next, it analyses Singapore's relative position among the top trading nations of the world. The paper concludes with an examination of the negative effects of globalization on Singapore, especially with reference to the current economic downturn.

GLOBALISATION AND SINGAPORE

2.1 Globalization and Singapore

Over the past three decades, globalization has swept the world economy. Globalization has led to the increasing interdependence of countries with a greater flow of goods, services, capital, and even labour across national borders. Globalization has not only led to offshoring trends in production so as to lower costs, but has also opened new markets, spawning a greater web of trade flows and higher demand for goods and services for many globalized firms.

As a small economy, Singapore has had to embrace globalization with an open and market-friendly economic system as this has allowed it to extend beyond its small domestic market and compete in global markets. As such, Singapore - a strong proponent of global trade and investment liberalization, adopted a multi-pronged approach in pursuing multilateral, bilateral and regional liberalization initiatives to secure and expand its economic space. Today, in terms of trade policies, Singapore has adopted an open trading regime with practically no tariffs, and its trade policy objective is to promote a free, open, and stable multilateral trading system.

The components of Singapore's multi-pronged approach for its trade strategy can be briefly summarized as:

(a) Anchoring the export production of foreign companies and their regional and global headquarter functions in Singapore:

   i. Moving up the value chain to attract higher value-added foreign direct investment projects to mitigate the loss of competitiveness in labour-intensive production.

   ii. Attracting companies to base their regional and international headquarters in Singapore

(b) Creating a pro-trade environment and ecosystem through:

   i. Establishing a strong logistics hub with the necessary infrastructure and service providers to support the trade activities of export-oriented production in Singapore and re-export trade.

   ii. Building a vibrant trading hub by getting major trading players to use Singapore as one.

   iii. Providing an environment conducive for trade flows with, in general, no duties on imports except for restricted items such as alcohol and tobacco.

   iv. Trade liberalization to increase trade network connectivity and tax attractiveness through the establishment of free trade agreements.

As a result, Singapore's trade benefited from globalization with strong growth over the past 2 decades. In the next few sections, we will cover the different trade areas that Singapore has benefitted from by implementing the above-mentioned multi-pronged trade promotion strategy[1].

2.2 Composition of Singapore's Exports

With the lowering of global transport costs, globalization has facilitated the development of international production networks, i.e. the distribution of the production of a final good or service across production sites in different countries (which offer good cost-effectiveness for each part of the value chain).

For Singapore's case, in the 1960s, the start of the globalization trend kick-started the offshoring of production centres from North America and Western Europe to lower cost locations in North and Southeast Asia, and this resulted in the entry of foreign companies into Singapore in order to set up assembly plants for products such as transistors and low-end consumer electronics. From the early 1980s to the early 1990s, Singapore became a key electronics manufacturing base for original equipment manufacturers (OEMs). As production costs increased in the OEMs' home countries, these companies moved more of their production bases to Singapore. However, as costs increased in Singapore, companies relocated their labour-intensive production processes to cheaper locations in Asia, including China and other ASEAN countries such as Vietnam. With this, Singapore has shifted to focus on more capital-intensive products like semiconductors and disk-drives, as well as R&D and product development. This move has also resulted in Singapore becoming an important exporter and re-exporter of machinery & transport equipment, especially to other Asian countries, which house the labour-intensive assembly operations of the OEMs.

The product-mix of Singapore's merchandise trade and, in particular, exports has reflected the changes described above. From 1985 to 1990, oil accounted for about one-third of Singapore's exports; reflecting Singapore's status as a major oil refining centre (Figure 1). At the time, the share of machinery & transport equipment in Singapore's exports was the same as oil's and the products in this category were lower value-added products such as transistors and low-end consumer electronics. The share of machinery & transport equipment in Singapore's exports rose from 32.3 per cent in 1985 to hit its peak in 2000 with a share of more than two-thirds of Singapore's exports. Exports of electronics was the major contributor to this trend, as electronics accounted for the majority of machinery & transport equipment products. At the same time, Singapore had shifted from producing low value-added products to higher value-added products such as disk drives and semiconductors. In recent years, Singapore's exports of machinery & transport equipment, especially electronics, continued to face competition from other Asian countries which have now also moved up the value-chain. This exerted downward pressure on the share of machinery & transport equipment in Singapore's exports, which declined to 55 per cent in 2007. Machinery & transport equipment's share of Singapore's domestic exports has been declining since 2000, reflecting the competition which Singapore is facing from other Asian countries (Figure 2). However, the share of machinery & transport equipment in Singapore's re-exports has been increasing (Figure 3) and this may reflect the shift in Singapore's role in the regional production network from a manufacturing base to a provider of services to manufacturers, especially those who have shifted their manufacturing bases

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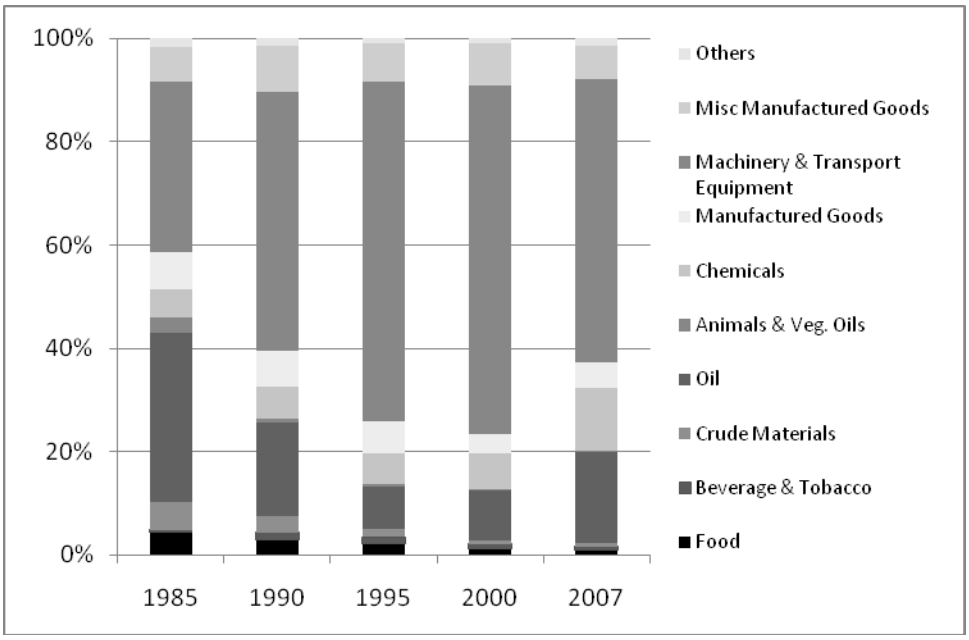
[1] An overview of the state of Singapore's trade performance is appended in Annex 1 for reference.

from Singapore to lower cost manufacturing locations across Asia.

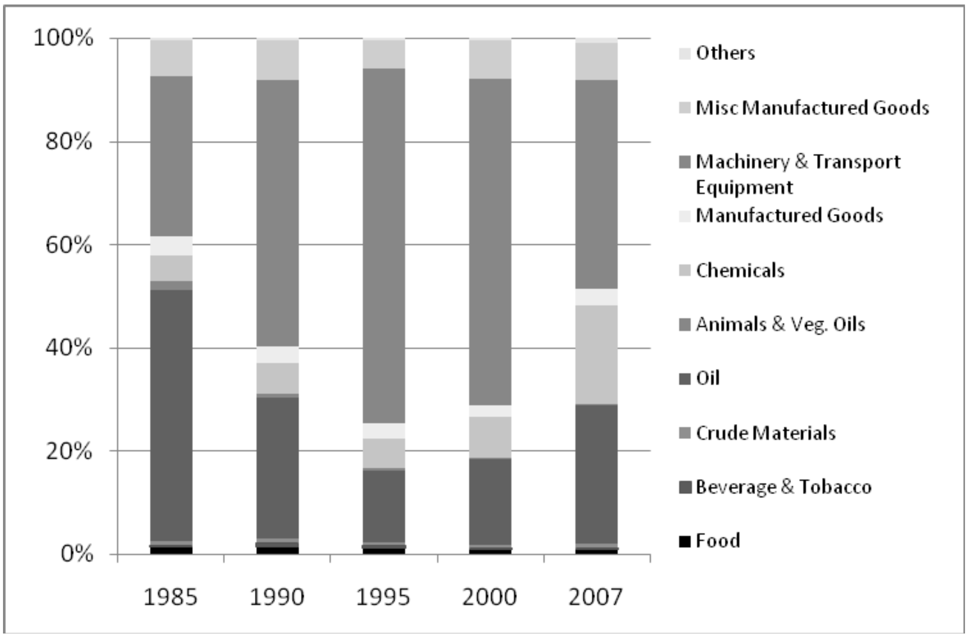
In order to mitigate the lowering of its cost competitiveness in electronics manufacturing, Singapore's investments shifted to attract other high value-added industries such as pharmaceuticals, biomedicals and aeronautics. As a result, the share of chemical products in Singapore's exports increased from 6.9 per cent in 2000 to 12.3 per cent in 2007. Over the short run, in the next few years, machinery & transport equipment's share of Singapore's exports might decline or stagnate if newer high value-added industries such as biomedicals grow rapidly. Nonetheless, for the foreseeable future machinery & transport equipment will continue to be a major component of Singapore's exports.

Figure 1: Composition of Singapore's Exports, 1985-2007



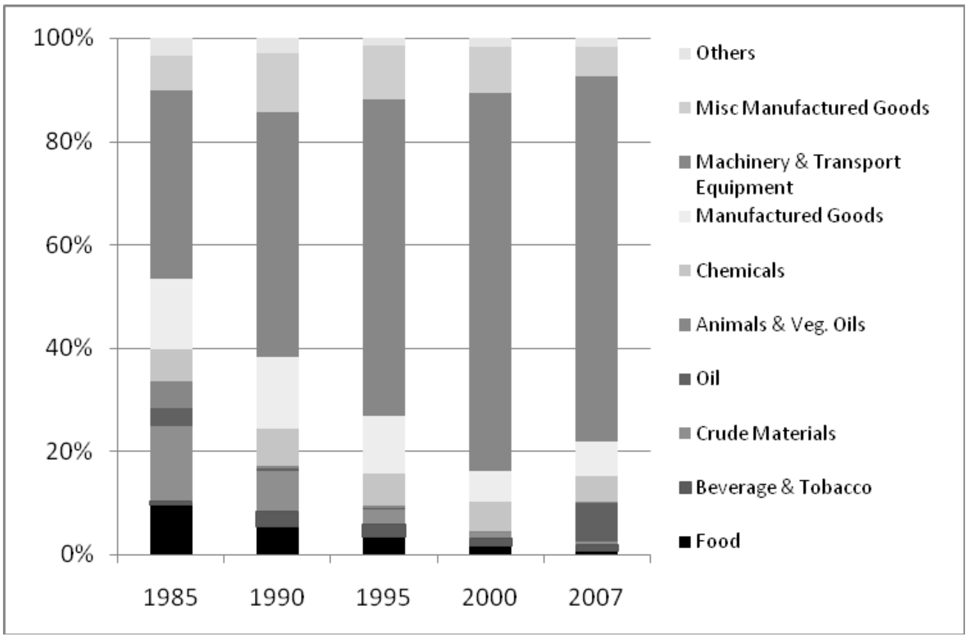
Source: IE Singapore, 2009

Figure 2: Composition of Singapore's Domestic Exports, 1985-2007



Source: IE Singapore, 2009

Figure 3: Composition of Singapore's Re-Exports, 1985-2007



Source: IE Singapore, 2009

2.2 Trading Partner Profile

The profile of Singapore's merchandise trading partners also saw some changes between 1985 and 2007. With the increasing number of markets opening up to trade as a result of globalization, Singapore's number of trading partners also increased; between 1985 and 2007, the number of countries trading with Singapore increased from 188 to 239.

The G3[2] countries have traditionally been important trading partners of Singapore. However, their share of Singapore's merchandise exports has been decreasing over the years. Trade with Emerging Asian countries[3], especially the newly industrializing economies (NIEs) and China, grew robustly, especially in the 1990s, with Singapore exporting intermediate components such as semiconductors and disk drives to other Asian countries for assembly into final products destined for the G3 countries.

In the next 10 years, we continue to foresee the dominance of G3 and Asian countries[4] as our top trading partners with United States-Asia and Asia-EU trade flow patterns remaining dominant. As long as the trade exchanges between the United States/Europe/Japan blocs and Asia remains, Singapore's major trading partners will continue to be the G3 and Emerging Asian countries as Singapore positions itself as a strong re-export hub.

2.3 Merchandise Trade with Emerging Asian Countries[5]

Two-thirds (63.4 per cent) of Singapore's merchandise trade in 2007 was with Emerging Asian countries. Historically, Singapore has enjoyed close trade links with Emerging Asian countries, especially Malaysia (its top trading partner with a 13 per cent share of Singapore's trade in 2007) and Indonesia (its 4th ranked trading partner with a 7.8 per cent share of Singapore's trade in 2007).

With globalization and the shifting of production bases to other Asian countries with lower labour costs (China in particular) in recent years, Singapore's trade with Emerging Asian countries grew at a rapid rate, in tandem with its total trade (Figure 4). The next few sections will highlight Singapore's trade with Emerging Asian countries.

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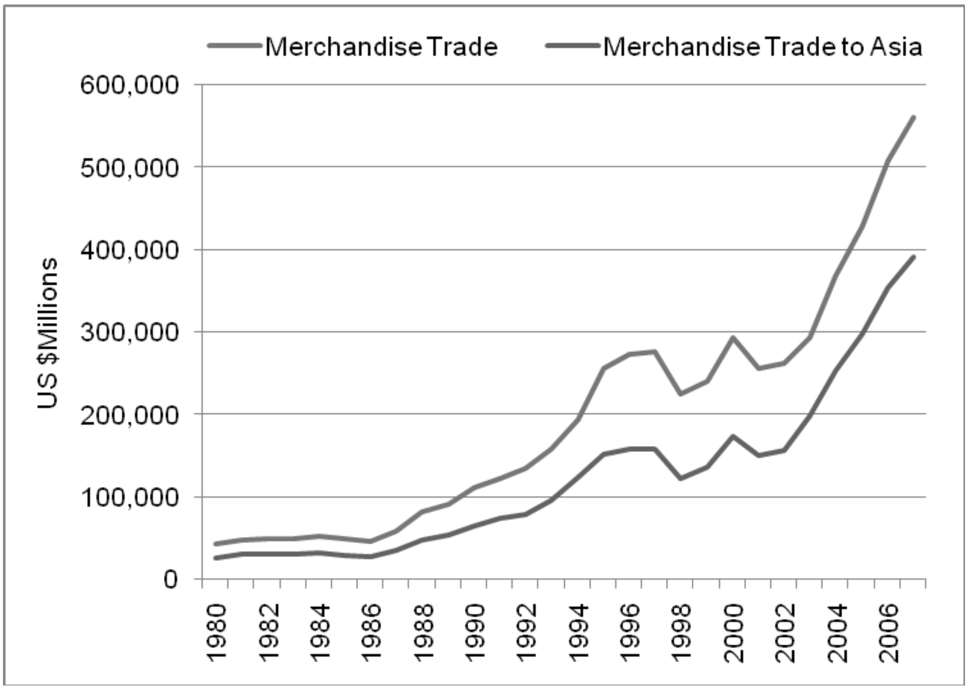
2 The US, the European Union and Japan

3 Asia sans Japan

4 China and ASEAN

5 Singapore's merchandise trade excludes Indonesia's trade before 2003.

Figure 4: Growth of Singapore's Merchandise Trade with Asian Countries, 1980-2007



Source: IE Singapore, 2009

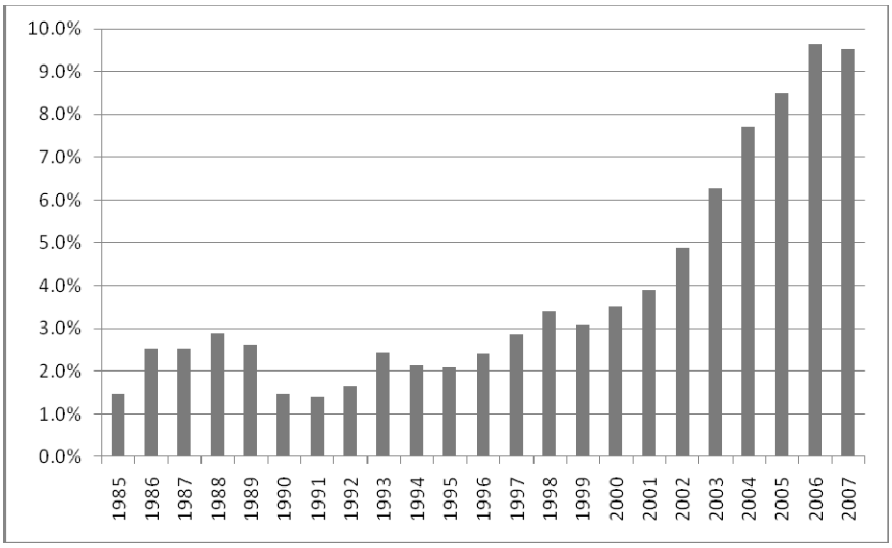
2.3.1 Singapore's Merchandise Trade with China

China was a major contributor towards the growth of Singapore's merchandise trade, especially in the 1990s, with the opening up of the Chinese market and the establishment of diplomatic relations between China and Singapore in 1990. Singapore's trade with China rose from US$2.59 billion in 1985 to US$60.8 billion in 2007. In terms of annual growth, Singapore's trade with China increased by an average annual rate[6] of 17.7 per cent between 1986 and 2007, outpacing even the growth of Singapore's merchandise trade (12.6 per cent) for the same period.

Singapore's exports to China also rose impressively by an average annual rate of 24.4 per cent between 1986 and 2007; with China's share of Singapore's exports increasing from 1.5 per cent in 1985 to 9.5 per cent in 2007 (Figure 5), resulting in China becoming Singapore's fourth-largest export market. This is not surprising as especially after WTO accession in 2001, a significant number of global firms moved parts of their production processes to China to capitalize on low manufacturing costs. The reorganization of production processes across borders resulted in the rise of Singapore's exports to China as Singapore moved into producing more capital-intensive intermediate goods, which served as inputs to China's production processes during the same period. With more Singapore companies investing in China and continual increase in China's consumer spending, Singapore's exports to China are expected to continue to grow.

6 Average annual rate in this paper refers to compound annual growth rate.

Figure 5: Singapore's Exports to China as per cent of Singapore's Total Exports, 1985-2007



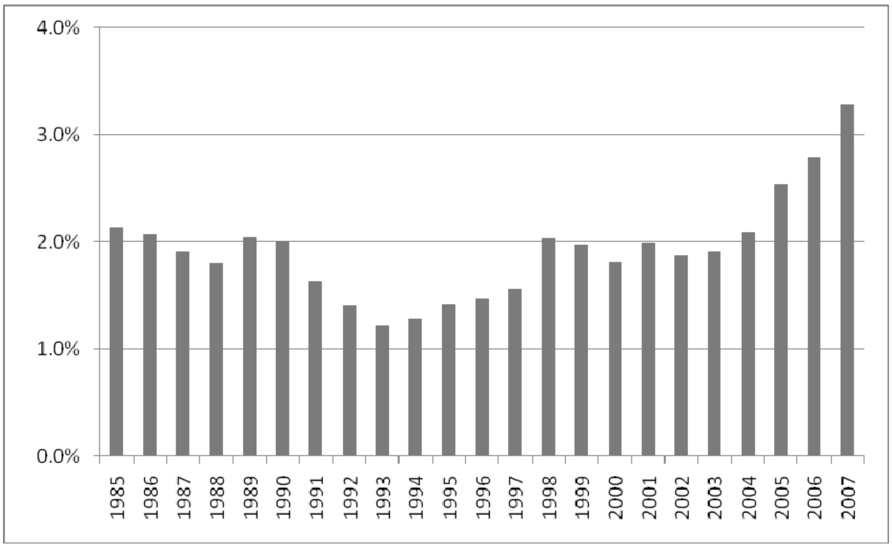
Source: IE Singapore, 2009

2.3.2 Singapore's Merchandise Trade with India

The process of globalization of the India economy was slower than China as it was constrained by formidable barriers to trade and investment till the early 1990s. Likewise, the pace of growth of Singapore's merchandise trade with India only accelerated in recent years, especially from the year 2000 onwards. Singapore's trade to India rose from US$708 million in 1985 to US$15.8 billion in 2007. India was Singapore's 10th largest trading partner in 2007.

Singapore's exports to India increased from US$486 million in 1985 to about US$10 billion in 2007 with India's share of Singapore's exports increasing from 2.1 per cent in 1985 to 3.3 per cent in 2007 resulting in India being Singapore's twelfth largest export market (Figure 6). Singapore expects exports to India to continue to grow as more and more Singapore companies continues to invest in India, despite the remaining barriers to entering the Indian market.

Figure 6: Singapore's Exports to India as per cent of Singapore's Total Exports, 1985-2007



Source: IE Singapore, 2009

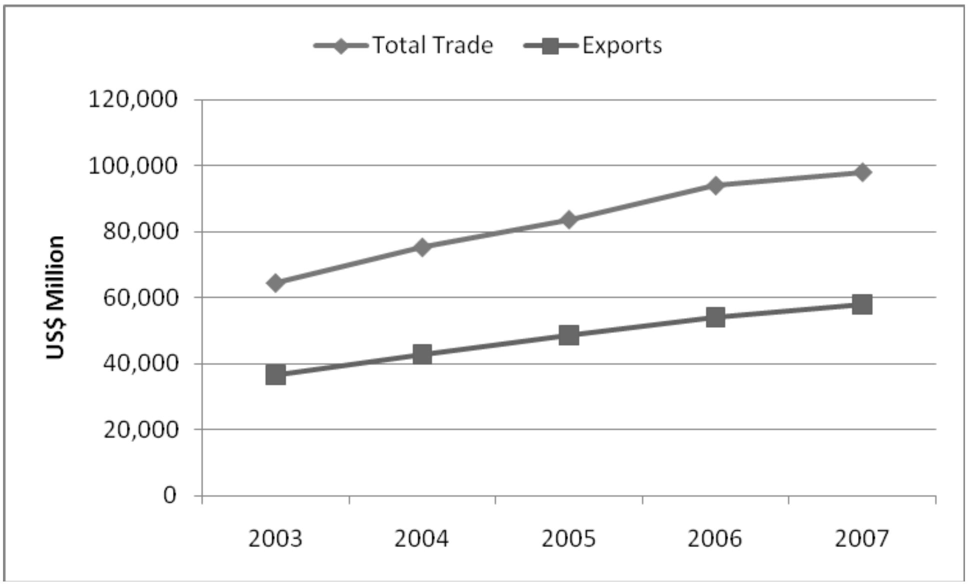
2.3.3 Singapore's Merchandise Trade with ASEAN Countries

The Association of Southeastern Asian Nations (ASEAN) countries, especially Malaysia, have historically been among Singapore's major trading partners. ASEAN countries accounted for 15.9 per cent of Singapore's trade and 18.0 per cent of Singapore's exports in 2007. From 2003 to 2007[7], Singapore's trade with and exports to ASEAN countries rose at annual average rates of 11.1 and 12.2 per cent respectively (Figure 7). The high growth of our trade to ASEAN countries during this period can be attributed to the growth of re-exports and especially semi-conductors re-exports (Figure 8). Companies which relocated their assembly and test operations from Singapore to other ASEAN countries continued to use Singapore as a re-export hub and/or as a testing hub before goods proceeded to their final destinations.

The ASEAN Economic Community is on track to be formed by 2015. This will mark the formation of another major trading bloc as it will provide a new trade regime for easier access to a combined population of more than 530 million people, which currently only accounts for 6 per cent of world exports. Companies from the US and EU, as well as India and China, will start to position themselves to sell their goods and services to the ASEAN market. Singapore's trade is likely to benefit through the anchoring of more companies in Singapore to coordinate their trade and procurement needs within ASEAN.

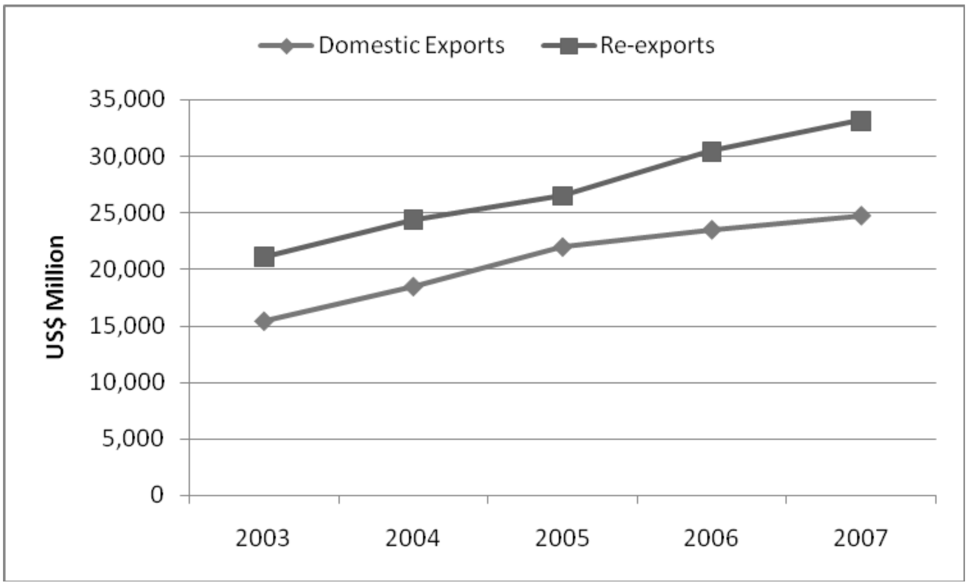
7 Data on Singapore's trade with Indonesia is not available before 2003.

Figure 7: Singapore's Merchandise Trade and Exports to ASEAN Countries, 2003-2007



Source: IE Singapore, 2009

Figure 8: Singapore's Domestic Exports and Re-Exports to ASEAN Countries, 2003-2007



Source: IE Singapore, 2009

SINGAPORE'S TRADE PERFORMANCE RELATIVE TO OTHER MARKETS

The following paragraphs compare Singapore's performance on several globalization indicators vis-à-vis selected Asian and OECD countries.

3.1 World Trade in Goods and Services

The United States was the largest trader of goods and services between 1970 and 2007 (Table 2). Singapore improved its world's trading position from the twenty-eight position in 1970 to the fourteen position in 2007.

Table 2: Performance of Top 15 Trading Countries (Goods and Services) in 2007

	1970		1985		1995		2007	
Country	**Rank**	**Value (in US$ Millions)**	**Rank**	**Value (in US$ Millions)**	**Rank**	**Value (in US$ Millions)**	**Rank**	**Value (in US$ Millions)**
United States	1	115,500	1	719,200	1	1,715,800	1	3,994,000
Germany	2	71,713	2	367,764	2	1,196,740	2	2,867,674
China	29	4,863	12	73,665	11	319,829	3	2,467,415
United Kingdom	3	54,098	5	257,681	5	649,185	4	1,529,043
Japan	5	41,374	3	340,887	3	887,762	5	1,469,855
France	4	45,793	4	259,268	4	697,197	6	1,410,307
Italy	7	34,255	6	193,494	6	536,832	7	1,229,906
Netherlands	8	32,066	8	159,972	7	473,626	8	1,092,479
Canada	6	36,324	7	192,940	8	421,948	9	966,497
Republic of Korea	38	3,332	16	61,211	12	303,802	10	877,745
Spain	14	10,266	14	71,807	14	267,144	11	846,796
Hong Kong	20	6,812	13	72,816	9	419,496	12	835,329
Belgium	9	26,083	9	118,967	10	373,167	13	791,376
Singapore	28	5,325	19	56,133	13	302,179	14	698,564
Russian Federation	-	-	-	-	15	220,291	15	672,929

Source: UNSTAT, 2009

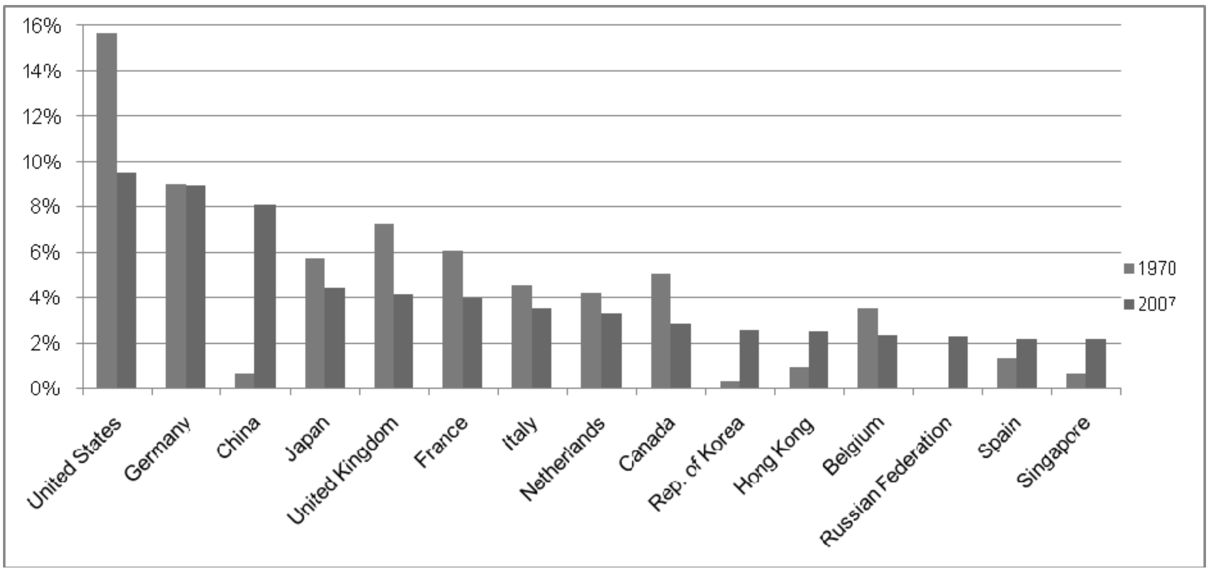
3.2 Singapore's World Export Market Share

The United States remained the world's largest exporter of goods and services in 2007 with a 9.5 per cent share of the world export market (Figure 9). Singapore was among four Asian countries ranked in the list of top 15 exporters in 2007; China, Japan, Republic of Korea and Hong Kong were the other four. Except for China, Republic of Korea, Hong Kong Spain and Singapore, all countries in the top 15 exporters list experienced decreases in their shares of the world export market between 1970 and 2007. This shows the dynamism of most Asian countries in the trading arena.

Singapore's share of the world export market increased from 0.6 per cent in 1970 to 2.2 per cent in 2007; an increase of 1.6 percentage points – similar to Hong Kong but lower than China and Republic of Korea. Singapore's share of the world export market increased substantially between 1985 and 1995. This also marked the period where there was a substantial increase in intra-ASEAN trade which was boosted by the significant rise in investment inflows into ASEAN countries, partly due to the establishment of AFTA. Moving forward, the formation of the ASEAN Economic Community in 2015 will turn ASEAN into another major trading bloc, which may boost Singapore's share of the world export market.

China had the highest percentage increase in terms of world export share in 2007. China's share of world exports increased by 7.5 percentage points between 1970 and 2007. China's strong export performance can be attributed to the surge of investments into China, especially over the past two decades, as it has become the world's factory.

Figure 9: World Export Market Shares in Goods and Services, 1970-2007
(Per Cent, Current Prices)



Note: No data is available for Russian Federation in 1970 (previously classified under Soviet Union).

Source: UNSTAT, 2009

3.3 Trade of Goods and Services as a Percentage of GDP

The ratio of exports and imports to GDP (trade-to-GDP ratio), in current prices, is the most frequently used indicator which demonstrates the openness of an economy towards trade. Singapore had the highest trade-to-GDP ratio (for both goods and services) in 2007 compared to the rest of the countries in the world (Figure 10). Its trade-to-GDP ratio of 433% underlines Singapore economy's strong reliance on global trade and Singapore's deep integration with the global economy.

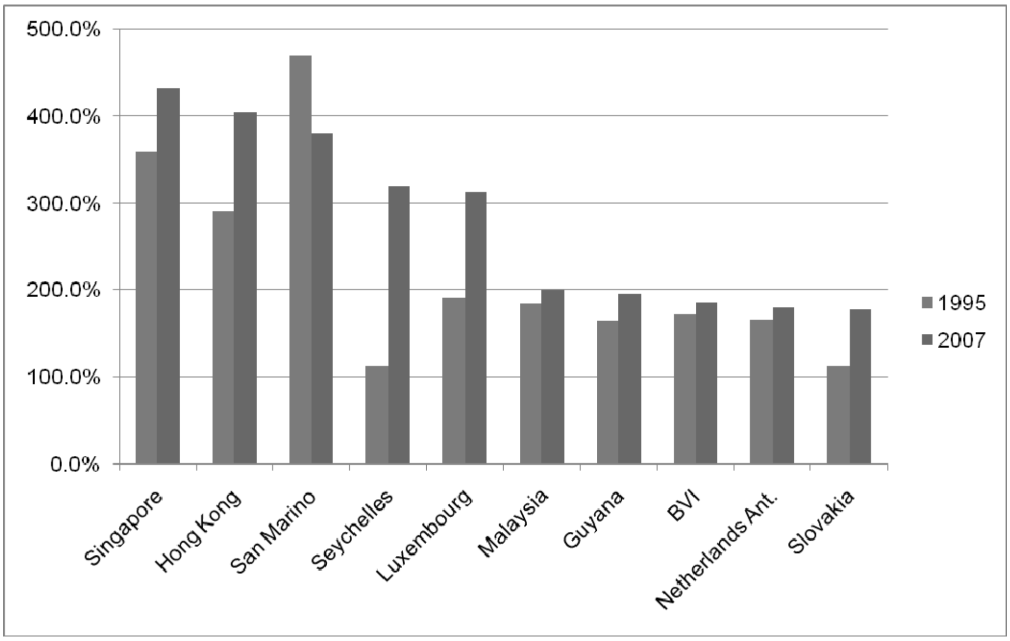
Singapore's strong trade-to-GDP ratio reflects Singapore's open economy and is also boosted by Singapore's strategy of promoting trade & procurement activities in Singapore together with attracting high value-added manufacturing activities in Singapore.

Two other Asian countries, i.e. Hong Kong and Malaysia, also appeared in the list of the top ten countries with the highest trade-to-GDP ratio. The appearance of Singapore, Hong Kong and Malaysia among the top 10 countries with the highest trade-to-GDP ratios may be attributed to the following reasons:

a) These Asian countries adopted an export-led growth strategy and as such, are heavily reliant on trade.

b) These Asian economies except for Malaysia have relatively smaller consumer markets and hence, need to depend more on external demand.

Figure 10: Trade-To-GDP, 1995-2007
(Per Cent, Current Prices)



Source: UNST, 2009

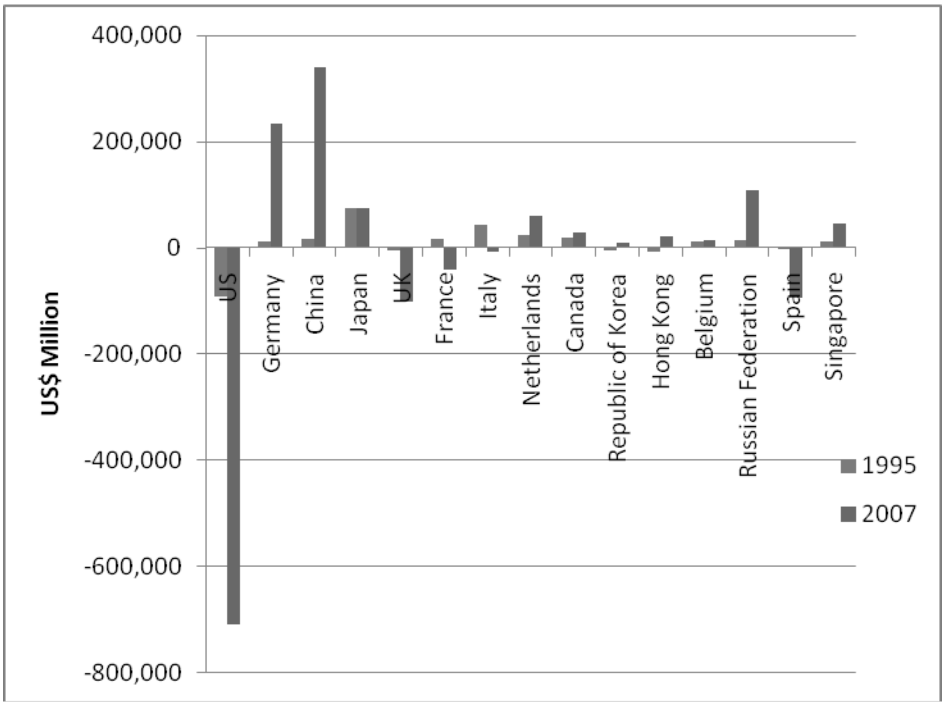
3.4 Trade Balance of Goods and Services

The trade balance of goods and services is the difference between exports of a country and its imports. A positive trade balance indicates that exports are greater than imports, and vice versa.

Among the 15 largest trading nations, the United States had the largest trade deficit of US$708 billion in 2007, an increase in their trade deficit of nearly 700 per cent from 1995 (Figure 11). Singapore has maintained a positive trade balance with the rest of the world since 1985, with a US$46.6 billion surplus in 2007. Among the top 15 largest trading nations, China and Japan were the only two other Asian countries with larger trade surplus than Singapore in 2007.

Moving forward, more Asian economies such as India and Vietnam are expected to have growing trade surpluses. Singapore will continue to maintain a positive trade surplus if it continues to focus on strengthening its trade hub status.

Figure 11: Trade Balance of Goods and Services, 1995-2007
(US$ Million, Current Prices)



Source: UNSTAT, 2009

NEGATIVE EFFECTS OF GLOBALISATION ON TRADE

Singapore benefited from globalization especially in the area of trade liberalization. However, Singapore's adoption of an export-oriented growth strategy also increases Singapore susceptibility to external shocks and in recent years, globalization has exacerbated these shocks.

Rising cross-border investment and stronger trade linkages resulted in more synchronized business cycles among developed nations and higher integration of international financial markets. This was reflected in the recent economic downturn where a synchronized slowdown in global economy resulted in the plunge of global trade.

Singapore has suffered four recessions since independence: in 1985, 1998, 2001 and 2009. The two recent recessions demonstrated Singapore's vulnerability to external shocks especially because of Singapore's high dependence on export markets. In 2001, Singapore experienced its worst recession when its economy contracted by 4.0 per cent. The decline was due to a sharp slump in external demand as a result of the downturn in the global electronics industry, compounded by the September 11 attacks in the US. Singapore's trade decreased by 9.4 per cent that year, although it returned to positive growth the next year and rebounded the following year.

The current global recession which was set off by the US credit crisis saw a synchronized global decline in trade starting in September 2008. The WTO expects the volume of world trade in goods to contract by more than 10 per cent in 2010[8]. By comparison, merchandise exports worldwide grew 6 per cent in 2007 and 2 per cent in 2008. Being heavily reliant on export demand and with its open economy, Singapore's merchandise trade is expected to decrease by 21 to 23 per cent in 2009 while its economy is expected to contract by 2.0 to 2.5 per cent in 2009.

All these demonstrate the negative effects of globalization. With Singapore's high degree of openness and dependence on export demand, Singapore is vulnerable to periodic external shocks which are now more synchronised due to globalization. However, Singapore was able to enjoy strong GDP growth as a result of being plugged into global markets. Singapore will also continue to build up the resilience to ride out periodic external shocks. History has shown that its open economy's flexibility has enabled Singapore to adjust rapidly to these shocks by constantly improving productivity and thus international competitiveness, which in turn contributes to economic growth and higher living standards.

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8 "Asian Recovery to Lead Any Global Trade Growth, WTO Chief Says", Bloomberg News, 27th October 2009.

CONCLUSION

Globalisation had benefited Singapore tremendously especially through trade liberalization. Over more than two decades, Singapore trade grew at a much faster pace than the world trade growth. Singapore capitalized on trade liberalization to establish itself as a trading hub in Asia and as a supplier of intermediate high value-added electronic goods. Moving ahead, Singapore will face intense competition with other Asian countries shifting their focus to producing high value-added electronic goods. However, Singapore will continue to reinvent itself and look for new opportunities such as biomedical and services products.

ANNEX 1

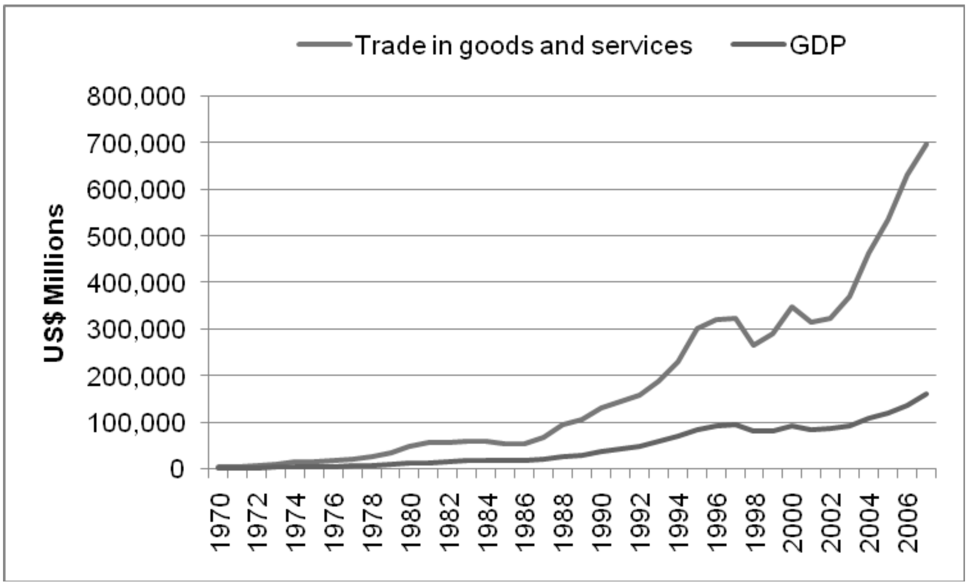
STATE OF SINGAPORE'S TRADE PERFORMANCE

1.1 Singapore's Trade in Goods and Services

Between 1970 and 2007, Singapore's total trade in goods and services grew rapidly with an average annual growth rate of 14.1 per cent. This was even faster than the average annual world trade growth rate of 10.8 per cent during the same period.

In nominal terms, Singapore trade in goods and services increased from US$5.33 billion in 1970 to reach US$698.6 billion in 2007 (Figure A1). Singapore's 2007 trade was more than four times its GDP and this highlights the importance of trade in Singapore's economy.

Figure A1: Growth of Singapore's Trade in Goods and Services and GDP, 1970-2007



Source: UNSTAT, 2009

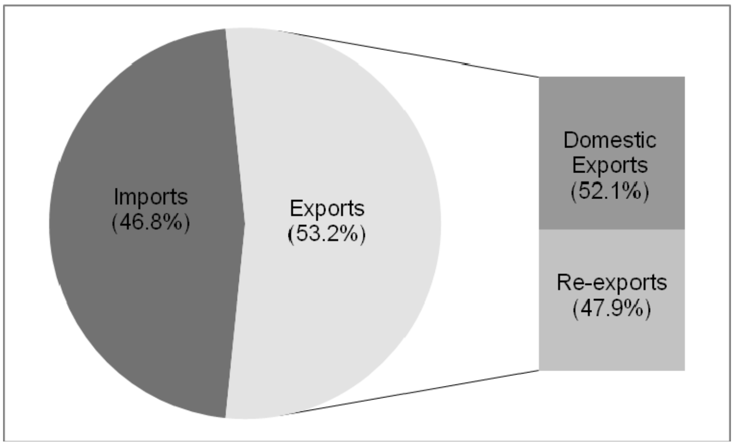
1.2 Singapore's Merchandise Trade

Merchandise trade comprised about three-quarters of Singapore's trade (78.3 per cent) in 2007. Merchandise trade grew at an average annual rate of 12.6 per cent between 1986 and 2007, slower than the growth of Singapore trade in goods and services which was 13.0 per cent over the same period.

Singapore's merchandise trade includes a large volume of entrepôt trade with 48 per cent of exports consisting of re-exports (Figure A2). Both domestic exports and re-exports expanded rapidly between 1986 and 2007. Domestic exports expanded by an average annual growth of 11.9 per cent from US$14.7 billion in 1986 to US$155.9 billion in 2007. Re-exports grew at an average annual rate of 14.9 per cent from US$7.8 billion to US$162.0 billion in the same period. The faster expansion of re-exports was due to increase in intra-regional trade especially in the 1990s.

Malaysia, China, the United States, Indonesia and Japan are Singapore's top five trading partners, accounting for 48 per cent of total trade in 2007.

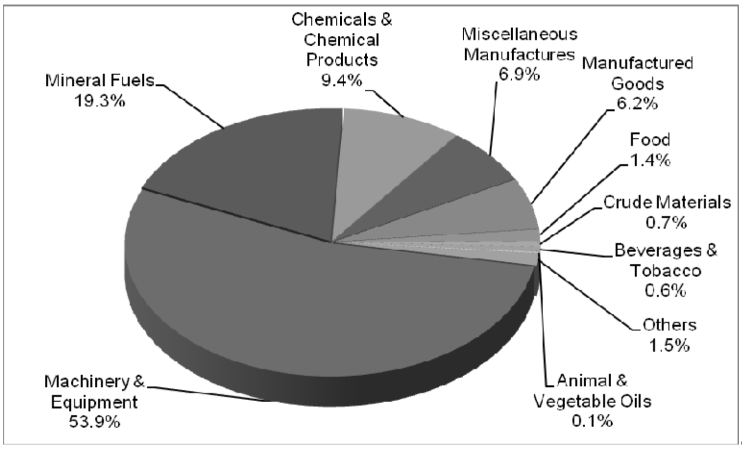
Figure A2: Composition of Singapore's Merchandise Trade, 2007



Source: IE Singapore, 2009

The two most important commodities in Singapore's trade were Machinery & Equipment and Mineral Fuels. They contributed towards more than 70 per cent of Singapore's total trade in 2007 (Figure A3).

Figure A3: Singapore's Merchandise Trade by Commodity Section, 2007



Source: IE Singapore, 2009

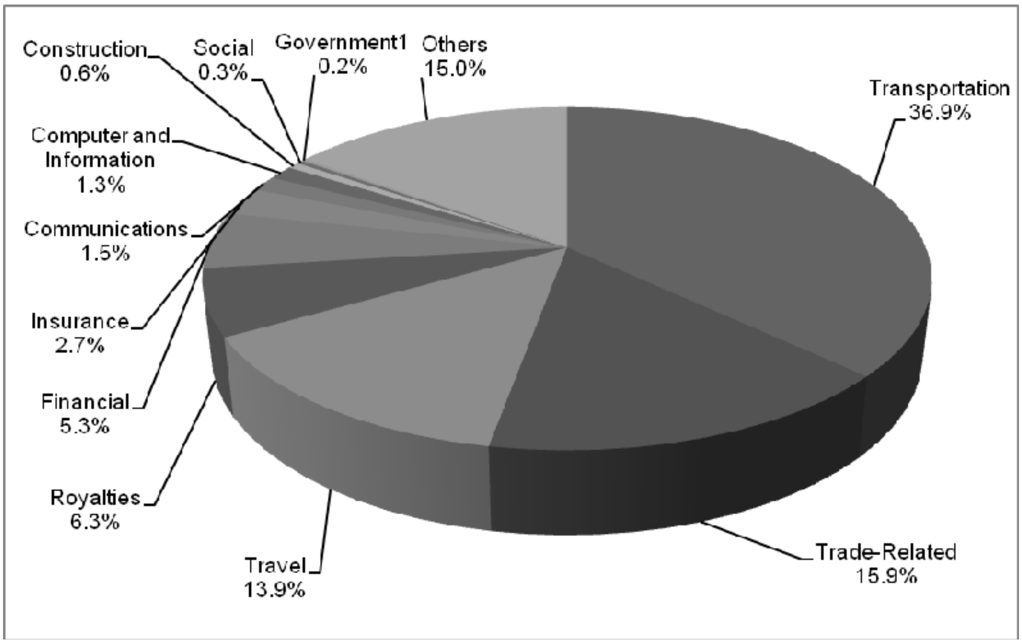
1.3 Singapore's Trade in Services

Trade in services represented about one-quarter of Singapore's 2007 trade. It grew at a slightly faster pace than merchandise trade with an average annual growth rate of 14.8 per cent between 1986 and 2007. Share of services in total trade has been steadily increasing especially in the past decade.

Singapore's major trading partners in services trade are the United States, Japan, United Kingdom, China, and Hong Kong which together accounted for more than two-thirds of Singapore's trade in services in 2007. The United States, Japan and China are Singapore's main trading partners in both merchandise trade and trade in services.

Transportation, travel and trade-related services formed the majority of Singapore's trade in services (66.7 per cent), accounting for more than 70 per cent of total services exports and 63.3 per cent of services imports in 2007 (Figure A4). These services are strongly associated with merchandise trade flows.

Figure A4: Components of Singapore's Trade in Services, 2007



Source: Department of Stati