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Role of Government in Attracting and Inviting Investment from the Private Sector: Extrapolations from the Singapore Experience

Caroline YEOH

Singapore Management University, carolineyeoh@smu.edu.sg

Rigan Wong

Adeline Kwan

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**THE ROLE OF GOVERNMENT IN ATTRACTING PRIVATE SECTOR INVESTMENTS:
EXTRAPOLATIONS FROM THE SINGAPORE EXPERIENCE**



Caroline YEOH
(Email: carolineyeoh@smu.edu.sg)

WONG Siang Yeung

KWAN Li Feng, Adeline

School of Business
Singapore Management University
469 Bukit Timah Road
Singapore 259756

Tel: (65) 6822 0377
Fax: (65) 6822 0777

THE ROLE OF GOVERNMENT IN ATTRACTING PRIVATE SECTOR INVESTMENTS: EXTRAPOLATIONS FROM THE SINGAPORE EXPERIENCE

Over the last three decades, Singapore's growth rates have earned the island-state the status of an economic miracle. Singapore has established itself as a reputable financial centre, a key regional trading centre, the world's busiest port, and a top location for investments. Excellent infrastructure, strategic location, skilled and industrious labour, advanced capabilities and a government whose approach to business is both pragmatic and flexible are significant assets that have propelled the growth of the Republic as a regional business hub.

Till the 1950s, Singapore was fundamentally an entrepot city, a commercial centre that executed key functions such as distribution, finance, transport and communications that serve the Southeast Asian and world markets. From the 1960s until the 1970s, job creation was the chief aim of Singapore's economic strategy. Consequently, the adoption of a free enterprise, open-door policy attracted multinational companies and other foreign investors who could generate jobs for Singaporeans. All types of industries were welcomed including garments, textiles, toys, wood products and electronics. Additionally, Singapore, being a small city-state bare of natural resources, was acutely aware of the advantages of FDI, namely access to large volumes of capital resources and foreign exchange, as well as new technology, managerial expertise and marketing skills that would not otherwise be available in a developing country.

The Singapore government has built institutions that people trust. Attention is directed at system integrity and efficiency, coupled with a sound, well-regulated financial system and other regulatory bodies that are not tainted by a reputation of corruption. Transparency International ranks Singapore as the least corrupt country in Asia, and one of the least corrupt in the world, a perspective that is shared by most observers and foreign investors. In addition to its excellent governance and infrastructure, Singapore's premier business environment in the Asia-Pacific is complemented further by its network readiness, protection for intellectual property and quality of living in the Asian region. The city-state is recognized as one of the most profitable places for investors in the world, and is highly competitive as well. (Charts 1 to 7).

Chart 1

| THE SECOND MOST PROFITABLE PLACE FOR INVESTORS WORLDWIDE | | | |
|----------------------------------------------------------|-----------------------------|-------------------------|--------------------|
| Ranked by + 5 years | 100 = Perfect Country Score | Present Composite Score | +5 Years Composite |
| 1 | Switzerland | 83 | 83 |
| 2 | Singapore | 77 | 79 |
| 2 | Netherlands | 74 | 75 |
| 4 | Japan | 73 | 74 |
| 4 | Taiwan | 71 | 74 |

Source: BERI Report 2001 - III

Chart 2

| THE NO. 1 BUSINESS ENVIRONMENT IN ASIA-PACIFIC | | |
|------------------------------------------------|----------------|----------------|
| Country | 1997-2001 Rank | 2002-2006 Rank |
| Singapore | 2 | 1 |
| Hong Kong | 1 | 2 |
| Australia | 4 | 3 |
| New Zealand | 3 | 4 |
| Taiwan | 5 | 5 |

Source: EIU Country Forecast (May 2002)

Chart 3

| NO. 4 IN GROWTH COMPETITIVENESS INDEX | |
|---------------------------------------|----------------|
| Country | 1997-2001 Rank |
| Finland | 1 |
| United States | 2 |
| Canada | 3 |
| Singapore | 4 |
| Australia | 5 |

Source: WEF Global Competitiveness Report 2001-2002

Chart 4

| NO. 5 IN WORLD COMPETITIVENESS | |
|--------------------------------|----------|
| Country | 2002 |
| United States | 1 |
| Finland | 2 |
| Luxembourg | 3 |
| Netherlands | 4 |
| Singapore | 5 |

Source: IMD World Competitiveness Yearbook 2002

Chart 5

| NO. 1 IN NETWORKED READINESS | |
|------------------------------|-------------|
| Country | Score |
| Singapore | 5.47 |
| New Zealand | 5.23 |
| Hong Kong | 5.23 |
| Australia | 5.22 |
| Taiwan | 5.18 |

Source: WEF Global Competitiveness Report 2001-2002

Chart 6

| NO.2 IN INTELLECTUAL PROPERTY IN ASIA-PACIFIC | |
|-----------------------------------------------|------------|
| Country | Score |
| Australia | 6 |
| Singapore | 5.6 |
| Japan | 5.5 |
| New Zealand | 5.3 |
| Hong Kong | 4.8 |

Source: WEF Global Competitiveness Report 2001-2002

Chart 7

| NO. 1 IN QUALITY OF LIFE IN ASIA | |
|----------------------------------|------------|
| Country | Score |
| Singapore | 8.3 |
| Malaysia | 7.69 |
| Japan | 6.15 |
| Thailand | 6.05 |
| Hong Kong | 5.91 |

Source: IMD World Competitiveness Yearbook 2002

The Singapore government has also invested substantially in the island's physical infrastructure in order to support the country's status as a hub for business. The country ranked number one in both the "Basic Infrastructure" and "Technological Infrastructure" categories in the 2003 IMD World Competitiveness Yearbook. On top of its considerable investments in hard infrastructure, the government has also invested extensively in the education of its people. Singapore's workforce is by far the best educated in Southeast Asia, and the island rivals the world's developed economies in both the quality of its schools and the degree that its population is skilled, multi-lingual and hi-tech proficient. These attributes, together with a distinct lack of labor activism, create an attractive labor environment for foreign companies.

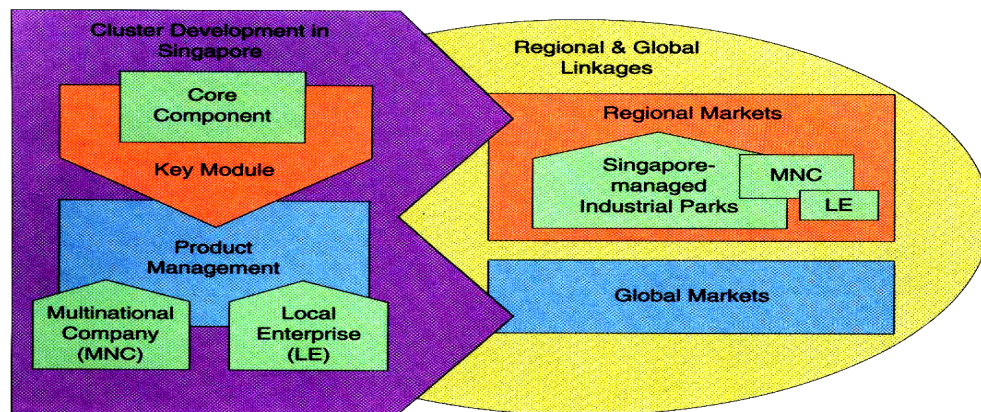
On this score, Singapore has garnered international accolades from Business Environment Risk Intelligence, World Economic Forum (Global Competitiveness Report), International Institute for Management Development (World Competitiveness Yearbook), Economic Intelligence Unit, Transparency International and other international ranking agencies. These accolades provide strong marketing leverage for Singapore as they brought confidence and reassurance to foreign investors and expatriates, with respect to the business environment and the level of risks to which they were exposed.

This strategic gambit by the Singapore government to attract FDI proved largely successful, as the inflow of FDI increased from US\$93 million in 1970 to US\$8.6 billion in 2001 in absolute terms, and from 25% of the FDI inflow into ASEAN in 1970 to 65% in 2001 (Tables 1 and 2). The United

States and Japan are Singapore's primary sources of FDI (Tables 3), while electronics and chemicals dominate the industrial distribution of FDI (Table 4). On a broader front, the United States and Japan accounted for 32% of the (cumulative) foreign equity investment, while manufacturing and financial/insurance services are the favored sectors for foreign investors, at 72% (Tables 5 and 6).

Singapore has also progressed to develop an 'external wing' for its economy. The strategic re-positioning was discussed at the 1993 Regionalization Forum, and encapsulated in the policy document, *Singapore Unlimited*. This strategic maneuver was premised on the perception that the redistribution of economic activities to regional industrial sites would enhance the collective competitiveness (or *shakkei*¹) of Singapore-based companies, as well as Singapore's own competitiveness as a high-value investment location with strategic linkages to the region (Figure 1). Singapore's Economic Development Board took on the role of "business architect" by encouraging foreign multinationals to locate their regional headquarters in Singapore, whilst redistributing their lower-end operations to the industrial parks. The strategic intent was for Singapore-based companies to tap into the markets, and resources, of regional economies. It was also intended to strengthen Singapore's MNC-linkages through co-investment in the region.

Figure 1: Transborder Industrialization



Source: Singapore Economic Development Board, Singapore Unlimited, 1995

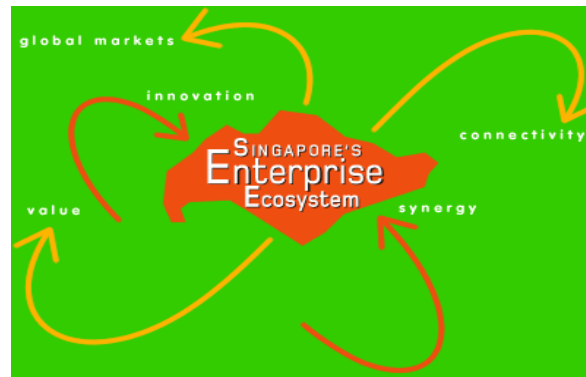
Selected statistics on Singapore's outward investments are presented in Tables 7 and 8, while the whole plethora of incentives put in place by the Singapore government to attract inward, and promote outward, investments can be gleaned from the websites of the Singapore Economic Development Board (<http://www.sedb.com/edbcorp/>) & International Enterprise Singapore (<http://www.iesingapore.gov.sg/>) respectively.

Singapore is now at a crossroad where the next move is critical for its economic defense. The 1997 Asian financial crisis, in particular, exposed structural strains in the economy, which had been masked by prior economic growth. Singapore has re-positioned itself to add depths on research and development in *niche* sectors, in order to enhance its industrial and technological base. Singapore's industrial strategy has taken on a cluster development dimension. It has identified and entrenched mutually supporting industries in both manufacturing and services. Existing key industry clusters such as electronics, chemicals, engineering, info-communication and media, logistics and supply chain management, have received much attention. New growth areas in biomedical sciences and healthcare services, education services, engineering and environmental services, photonics, nanotechnology and digital media have been slated for priority development.

¹ With 'Shakkei', a Japanese landscaping strategy, the scenery from one's garden is enhanced by incorporating the scenery from afar, such that the combined scenery is superior to each on its own. Extrapolated, the collective competitiveness approach envisaged that the development of regional economies, and sites, leads to positive complementary growth for Singapore.

Holistically, Singapore is developing an international business hub by nurturing an “enterprise ecosystem” – an integrated environment for either emerging or established, Singapore-owned or foreign enterprises, to thrive in synergy. Singapore’s Economic Development Board envisages the city-state to be a premier hub for headquarter activities with a strong network of business support linkages and global connectivity, by remaining committed to providing a stable and pro-business environment, first-rate infrastructure and high quality workforce for businesses, as well as quality of life and standard of living for executives (Figure 2).

Figure 2: Singapore’s Enterprise Ecosystem



Source: Singapore Economic Development Board, 2002

Singapore's success is a testimony of a nation's determined efforts at strategic management for economic development. Singapore's achievements are the outcome of the unique combination of strategic forecasting and planning, and the strategic implementation of appropriate strategies in an ever changing, and competitive, global environment. Singapore will certainly seek to enhance its role as a major value-adding, switching node in the global strategies of international business, and will definitely continue to forge strategic alliances with international companies, and other national governments, for mutual benefit. Increasingly, Singapore's economic positioning would resemble that of a “knowledge arbitrageur” - helping companies to redistribute, and reconfigure, their business activities to meet both their corporate objectives and Singapore's development aspirations. The government has recently announced another sleuth of cost-cutting measures to keep the city-state on the radar of foreign investors. The socio-economic and socio-political changes, and challenges, in the global environment leave no room for complacency. Like chess players, Singapore has to plan and stay several steps ahead of the competition!

Table 1: World FDI Inflow
(Millions of US\$)

| <i>INDICATOR</i> | FDI INFLOWS | | | | | | | |
|----------------------|--------------------|--------|--------|--------|---------|---------|-----------|---------|
| <i>YEAR</i> | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2001 |
| <i>COUNTRY_GROUP</i> | | | | | | | | |
| World | 12,586 | 26,580 | 54,945 | 57,596 | 202,782 | 330,516 | 1,491,934 | 735,146 |
| Asia | 787 | 4,501 | 396 | 5,110 | 24,251 | 75,217 | 133,707 | 102,066 |
| China | - | - | 57 | 1,659 | 3,487 | 35,849 | 40,772 | 46,846 |
| Taiwan | 62 | 34 | 166 | 342 | 1,330 | 1,559 | 4,928 | 4,109 |
| South Korea | 66 | 57 | 6 | 234 | 789 | 1,776 | 9,283 | 3,198 |
| ASEAN | 374 | 1,311 | 2,415 | 2,229 | 12,740 | 25,367 | 11,055 | 13,240 |
| Singapore | 93 | 292 | 1,236 | 1,047 | 5,575 | 8,788 | 5,407 | 8,609 |

Source: UNCTAD

Table 2: FDI flow into Asia
(Millions of US\$)

| <i>INDICATOR</i> | FDI INFLOWS | | | | | | | |
|----------------------|--------------------|-------|-------|-------|--------|--------|--------|--------|
| <i>YEAR</i> | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2001 |
| <i>COUNTRY_GROUP</i> | | | | | | | | |
| China | - | - | 57 | 1,659 | 3,487 | 35,849 | 40,772 | 46,846 |
| ASEAN | 374 | 1,311 | 2,415 | 2,229 | 12,740 | 25,367 | 11,055 | 13,240 |
| Singapore | 93 | 292 | 1,236 | 1,047 | 5,575 | 8,788 | 5,407 | 8,609 |
| Malaysia | 94 | 350 | 934 | 695 | 2,611 | 5,816 | 3,788 | 554 |
| Indonesia | 83 | 476 | 180 | 310 | 1,092 | 4,346 | -4,550 | -3,277 |
| Thailand | 43 | 86 | 189 | 164 | 2,562 | 2,068 | 2,813 | 3,759 |
| Philippines | -25 | 98 | -106 | 12 | 550 | 1,459 | 1,241 | 1,792 |
| Vietnam | 0 | 4 | 0 | -0 | 180 | 1,780 | 1,289 | 1,300 |
| Brunei Darussalam | 86 | 1 | -20 | 4 | 3 | 583 | 600 | 244 |
| Myanmar | - | 3 | 0 | - | 161 | 277 | 255 | 123 |
| Cambodia | 0 | 0 | 1 | - | - | 162 | 179 | 113 |
| Laos | 0 | 0 | - | -2 | 6 | 88 | 34 | 24 |

Source: UNCTAD

Table 3: Net Investment Commitments in Manufacturing
by Region / Country, 1965 - 2002

| Region / Country | 1965 | 1970 | 1975 | 1979 | 1998* | 1999 | 2000 | 2001 | 2002 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Local | - | - | - | - | 33.4 | 22.2 | 21.4 | 27.9 | 21.9 |
| Foreign | - | - | - | - | 66.6 | 77.8 | 78.6 | 72.1 | 78.1 |
| USA | 14.7 | 34.5 | 33.1 | 28.6 | 29.3 | 44.6 | 40.1 | 34.8 | 27.0 |
| Japan | 17.2 | 6.8 | 13.4 | 16.5 | 23.3 | 14.7 | 16.4 | 14.6 | 19.7 |
| Europe | 68.1 | 42.5 | 34.6 | 38.3 | 13.3 | 14.2 | 18.7 | 20.9 | 23.6 |
| Others | - | 16.2 | 18.9 | 16.6 | 0.7 | 4.4 | 3.4 | 1.8 | 7.8 |
| Total (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total (S\$m) | 157 | 995 | 3,380 | 6,349 | 7,830 | 8,037 | 9,209 | 9,172 | 9,019 |

* 1998 - 2002 figures include local investment commitments.

Source: Singapore Economic Development Board

Table 4: Net Investment Commitments in Manufacturing
by Industry, 1965 - 2002

| Sector | 1965 | 1970 | 1975 | 1979 | 1998* | 1999 | 2000 | 2001 | 2002 |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Electronics | 0.6 | 8.2 | 10.5 | 14.8 | 38.9 | 40.9 | 48.3 | 50.3 | 51.6 |
| Chemicals | 66.3 | 61.9 | 47.3 | 45 | 31.8 | 32.8 | 23.4 | 20.7 | 22.5 |
| Biomedicals | - | - | - | - | 6.4 | 4.1 | 8.8 | 9.2 | 9.5 |
| Precision Engineering | - | 1.7 | 4.2 | 4.3 | 12.5 | 12.4 | 10.7 | 11.3 | 10.7 |
| Transport | - | 5.1 | 6.2 | 6.1 | 4.9 | 4.3 | 5.6 | 4.5 | 3.5 |
| General Manufacturing Industries | 33.1 | 23.1 | 31.8 | 29.8 | 5.5 | 5.5 | 3.2 | 4.1 | 2.4 |
| Total (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total (S\$m) | 157 | 995 | 3,380 | 6,349 | 7,830 | 8,037 | 9,209 | 9,172 | 9,019 |

* 1998 - 2002 figures include local investment commitments.

Source: Singapore Economic Development Board

Table 5: Foreign Equity Investment in Singapore by Country, 1999 - 2000
(Millions of S\$, Cumulative as at Year-End)

| Country | 1999 | 2000 | Per Cent Change |
|------------------------|---------|---------|-----------------|
| Asian Countries | 45,985 | 49,250 | 7.1 |
| ASEAN | 8,995 | 9,257 | 2.9 |
| Malaysia | 6,200 | 5,543 | -10.6 |
| Hong Kong | 4,685 | 6,135 | 30.9 |
| Japan | 28,130 | 29,328 | 4.3 |
| European Countries | 62,626 | 74,240 | 18.5 |
| Netherlands | 22,875 | 30,128 | 31.7 |
| Switzerland | 15,698 | 16,085 | 2.5 |
| United Kingdom | 11,863 | 9,708 | -18.2 |
| United States | 24,791 | 34,371 | 38.6 |
| British Virgin Islands | 9,268 | 9,940 | 7.3 |
| Cayman Islands | 5,643 | 6,968 | 23.5 |
| Bermuda | 6,398 | 7,223 | 12.9 |
| Total | 168,837 | 196,406 | 16.3 |

Source: Singapore Department of Statistics

Table 6: Foreign Equity Investment in Singapore by Industry, 1999 - 2000
(Millions of S\$, Cumulative as at Year-End)

| Industry | 1999 | 2000 | Per Cent Change |
|---------------------------------------|---------|---------|-----------------|
| Manufacturing | 57,655 | 70,676 | 22.6 |
| Chemicals and Chemical Products | 14,316 | 17,085 | 19.3 |
| Petroleum and Petroleum Products | 4,665 | 6,910 | 48.1 |
| Machinery and Equipment | 2,329 | 2,451 | 5.2 |
| Electronic Products and Components | 28,766 | 35,082 | 22.0 |
| Commerce | 27,153 | 31,353 | 15.5 |
| Transport, Storage and Communications | 6,371 | 9,025 | 41.7 |
| Financial and Insurance Services | 64,067 | 70,710 | 10.4 |
| Real Estate | 5,621 | 6,261 | 11.4 |
| Business Services | 6,393 | 7,839 | 22.6 |
| Total | 168,837 | 196,406 | 16.3 |

Source: Singapore Department of Statistics

Table 7: Singapore's Total Direct Investment Abroad by Activity Abroad
(Millions of S\$, Stock as at Year-End)

| Sector | 1996 | 1997 | 1998 | 1999 | 2000 |
|----------------------------|--------|--------|--------|--------|--------|
| Manufacturing | 20.7 | 19.5 | 23.4 | 24.7 | 26.3 |
| Construction | 1.0 | 1.0 | 1.2 | 0.9 | 0.9 |
| Commerce | 9.4 | 8.9 | 8.7 | 8.2 | 8.2 |
| Transport & Communications | 3.6 | 5.0 | 3.9 | 6.0 | 5.4 |
| Financial Services | 51.9 | 53.0 | 50.1 | 48.2 | 48.2 |
| Real Estate | 8.0 | 7.7 | 8.1 | 7.4 | 7.5 |
| Business Services | 4.1 | 3.8 | 3.2 | 3.1 | 2.2 |
| Others | 1.2 | 1.1 | 1.4 | 1.6 | 1.4 |
| Total (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total (S\$m) | 55,536 | 75,807 | 75,622 | 92,720 | 91,949 |

Source: Singapore Department of Statistics

Table 8: Singapore's Total Direct Investment Abroad by Destination
(Millions of S\$, Stock as at Year-End)

| Destination | 1996 | 1997 | 1998 | 1999 | 2000 |
|------------------------|--------|--------|--------|--------|--------|
| China | 11.5 | 13.8 | 16.1 | 15.4 | 16.3 |
| Malaysia | 17.3 | 11.8 | 11.4 | 9.2 | 10.1 |
| Hong Kong | 10.8 | 10.7 | 10.1 | 11.2 | 8.4 |
| United States | 4.7 | 3.8 | 4.1 | 4.5 | 6.5 |
| Indonesia | 7.0 | 8.6 | 5.9 | 5.9 | 5.8 |
| Mauritius | 0.7 | 3.3 | 4.3 | 3.7 | 4.5 |
| British Virgin Islands | 2.6 | 3.8 | 5.3 | 5.2 | 4.2 |
| Liberia | 4.2 | 5.2 | 3.5 | 2.6 | 4.0 |
| Total (%) | 58.8 | 61.0 | 60.6 | 57.8 | 59.6 |
| Total (S\$m) | 55,536 | 75,807 | 75,622 | 92,720 | 91,949 |

Source: Singapore Department of Statistics

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