Singapore's Period of Adjustment

By Bretigne Shaffer

SINGAPORE'S main obstacle to economic growth in the coming months will be the economy's dependence on overseas markets. The potentially deb-ilitating effects of weak worldwide markets will be ex-acerbated by Singapore's labour shortage, and the impending credit squeeze. While the hoped-for US recovery will no doubt ease part of the nation's export woes, rising labour costs, in response to the shortage of labour, translate into de-creased competitiveness on the world market, and could spell long-term problems.

GDP growth is forecast to be down from the first quarter. Says Barings : "We expect growth of 7.3% for this year (down from 7.5% in the first quarter, and 8.3% last year), rising to 7.8% next year as the US recovery gets underway."

Meanwhile, Political and Economic Risk Consultancy forecasts real GDP growth at 7.5% for the year, which they say is "significantly higher than estimates by most observers earlier in the year".

Singapore remains inextricably tied to its export markets — in particular, the US. Currently, over 21% of Singapore's exports go to the United States, compared to 13% going to Malaysia, its second-largest export market.

As Singaporean manufacturers shift their production sites of Malaysia, exports to that country decline. Already, Singapore's exports to Malaysia are down from 1980's 15%, and they are forecast to drop further.

Oil-importers such as Japan and Thailand are moving towards increased oil-in-dependence, as they seek to expand their own oil-refining capacities. Oil exports accou-nted for 18.2% of Singapore's total exports last year, down from nearly 33% the previous year.

Thus, if Singapore is to become less dependant on the US market for its exports, it will not be able to rely on its traditional Asian markets as a substitute.

The sector most heavily dependent upon the US market is machinery and transport equipment, which accounts for 50.1% of Singapore's exports. This is up from 33% five years ago, and only 26.8% ten years ago. The United states takes in 42% of Singapore's machinery and transport equipment exports, making this sector highly vulnerable to any changes in the US economy.

As the nation's export markets become less tenable, and its exports less compe-titive, Singapore's economy has begun to develop a significant service sector.

In 1990, service sector industries' earnings accounted for 63% of total GDP, and the service sector grew by 10.9%.

One major advantage to increased dependence on the service sector for foreign exchange earnings is that it is less dependent on the US. In 1990, tourists from the US made up only 5% of total tourist arrivals. Visitors from Japan, meanwhile, accounted for 19% of total arrivals, and those from ASEAN countries 26%.

The service sector includes financial services, business and commercial services, and transportation. The nation's role as a regional financial hub has placed it in a good position to attract foreign banks to its shores. As of 1990, Singapore had 208 banks. Last year, the financial sector grew at a rate of 22% making it the economy's fastest-growing sector.

Singapore's position as a regional financial leader, however, is threatened as other countries begin to develop their own financial sectors. Malaysia, for instance, is currently attempting to implement sweeping reforms in its own banking sector.

In addition, the financial sector is plagued by the same problems facing the rest of the economy. In particular, the labour shortage has driven up costs in recent years, and is only expected to get worse in the coming year. The financial sector currently employs 9.5% of the nation's labour force.

Many in Singapore hope that as 1997 approaches, they will see an influx of migrants from Hong Kong. According to United IBV's Robert Wang :

"They think — rightly or wrongly, and not many have gone yet — that Hong Kong people will go to Singapore. So that has kept the price of real estate up, on that perception. Property values have shot up, particularly after the Gulf War. Five hundred dollars per square foot was totally unthinkable six months ago."

With Australia, Canada and the US remaining the most popular destinations for Hong Kong migrants, however, it is doubtful that such hopes will be fully realized. And, as neighbouring countries develop their own service sectors, it will become more and more difficult to attack skilled workers from such places as Malaysia.

Currently, the service sector accounts for 42% of the total labour force. This is more than the manufacturing sector, which uses only 29% of the country's workforce. And the service sector's share is expected to increase as the service industries continue to grow. Staff requirements in the financial sector alone are expected to increase by nearly seven per cent per year in the coming years.

Meanwhile, foreign investment in Singapore continues to be predominantly linked to export-industries, and as such, is contingent upon the accessability of foreign markets — especially that of the US.

While foreign investment in manufacturing has declined significantly this year, foreign investment in the service sector is expected to grow, as more and more multinationals take advantage of Singapore's status as a regional financial and trading hub.

Singapore's continued political stability, as well as its highly developed infrastructure, and healthy business environment, combine to make it an attractive destination for foreign investment, and this is not expected to change significantly in the coming year.

The nation is going to have to adjust to new economic circumstances, however, and will no longer be able to depend upon its traditional export markets for continued growth. The extent to which Singapore is able to make the successful transition from a manufacturing-led economy to a service-industry-led economy, will determine its success or failure in the coming decade.

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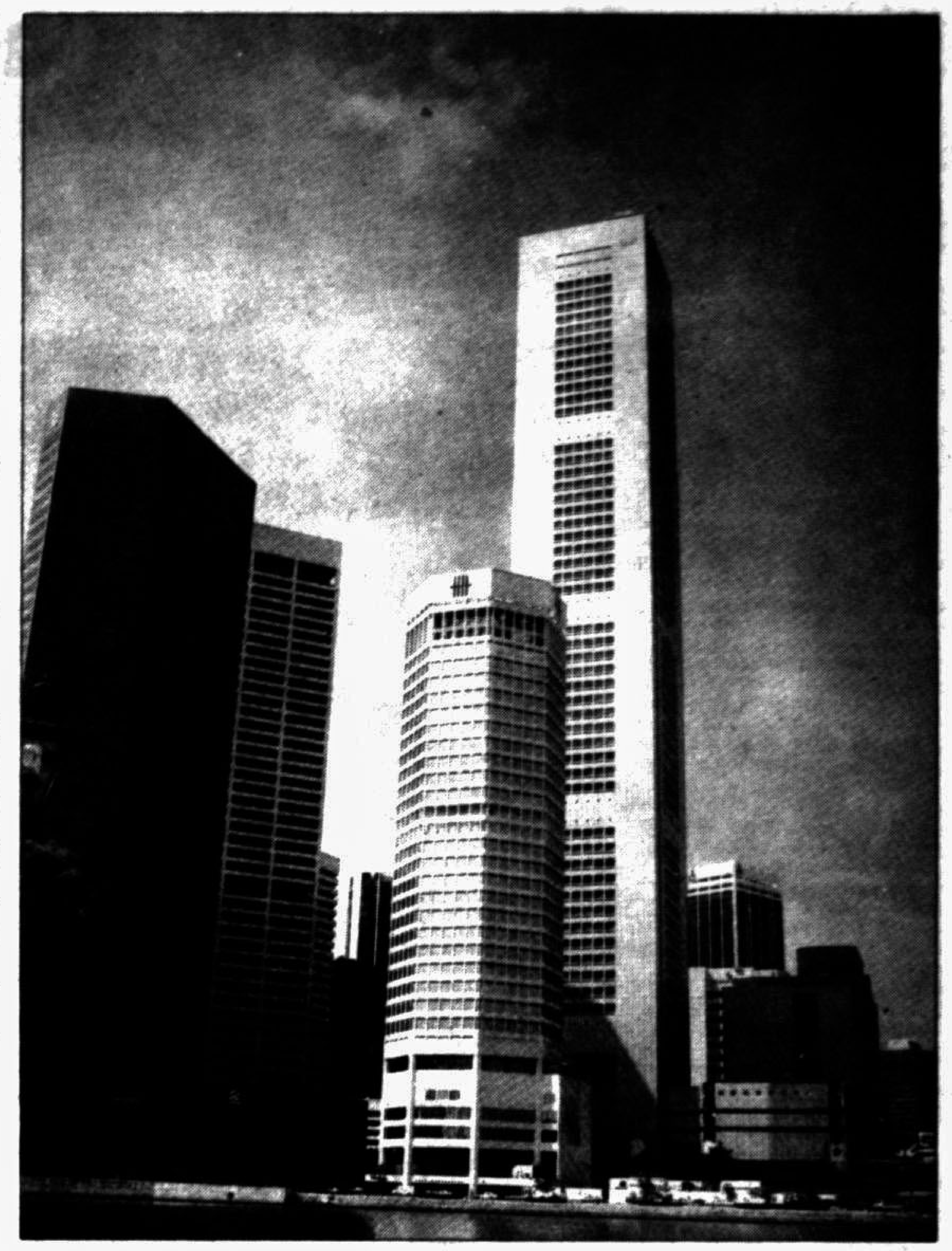

Singapore: Growth at a plateau

South has Vital Stake in the GATT Talks

The GATT talks to liberalise world trade have been stalled for over a year. Controversy between the European Community and the US over agricultural subsidies have obscured the problems of many developing countries. They are being forced to liberalise their fragile economies and yet face the discriminatory trade practices of the industralised world. Gemini News Service reports on their dilemma. by Daya Kishan Thussu

MUCH of the discussion about GATT has been confined to the conflicting interests of the world's big trading blocs. Developing countries have received a bad deal from the unequal world trading system which is dominated by the North.

To the dismay of many developing countries, GATT is now increasing its mandate to include services and intellectual property rights in the so-called Uruguay Round Talks which could have profound implications for the Third World.

The Uruguay Round is the eighth since the Geneva-based General Agreement on Tariffs and Trade (GATT) came into force in 1948. While there have been significant tariff reductions on industrial products, discriminatory restrictions exist on the products the developing countries want to export, such as textiles.

Launched in September 1986 at the Uruguayan resort of Punta del Este, the talks are the most ambitious so far, covering many areas of trade, including agriculture, access to markets, textiles, and now services, intellectual property and investment for the first time.

While progress has been made on most of these issues, a new world trade regime cannot start unless the dispute over agriculture is settled.

The talks were stalled last December in Brussels primarily because of world's two biggest trading blocs, the European Community (EC) and the United States, failed to agree on reductions in government support to the three agricultural trade areas of export subsidies, internal supports and market access. The US demands reform of the EC Common Agricultural Policy (CAP) and wants to cut government farm and export subsidies.

GATT members account together for 90 per cent of world trade. However, the developing countries, which make up two-thirds of GATT's 108-country membership, have received a bad deal in trade.

Many developing countries feel particularly vulnerable because of the steps taken to liberalise their economies and, as a price for joining GATT, to reduce import tariffs.

Several industralised countries, led by the US, want developing countries to open their domestic markets to the service industries in areas such as communication, banking and insurance. The North already has a pronounced advantage in these capital — or technology-related services.

The international trade system is unfavourable to developing countries, many of which face persistent balance of payment difficulties.

Moreover, the decline in commodity prices, the growing debt burden, and the instability of international currency and financial markets add to their economic woes. The North is becoming increasingly protectionist in sectors where developing countries have a comparative advantage — for example, textiles.

Now, pressure is being mounted on developing countries to bring their intellectual property rights legislation in line with the perceived interests of the North and they are understandably reluctant.

The inclusion of trade-related intellectual property rights (TRIPs) in the current round of GATT talks seeks to extend the jurisdiction of GATT far beyond its traditional concern relating to border restrictions on goods.

Intellectual property includes mainly copyrights and related rights, and industrial property covered patents, inventors' certificates, trade marks and similar rights.

Under US insistence, copyrights have been extended to include not only literary and artistic works, but also computer software and databases. Special emphasis is put on protecting patents for pharmaceutical and chemical processes, and biotechnology and genetic engineering in plants and animals.

The industrialised countries allege that technology innovations particularly computer software and new plant varieties, are often copied in developing countries, depriving the innovators of income.

Intellectual property rights and their international protection have traditionally been discussed by the World Intellectual Property Organisation (WIPO). However, the North now has so high a stake that they have been brought into the GATT arena.

Industrialised countries insist that the countries which do not have laws on intellectual property rights should adopt them soon and the ones who have, need to make the laws more stringent to protect these rights.

Critics of the North say that new technological breakthroughs in electronics, informatics and biotechnology are skill-intensive and once a developing country has acquired a certain level of technological sophistication it can copy or imitate the scientific innovations.

Many observers believe that the North's objective is to put pressure on developing countries to introduce legislation protecting the intellectual property rights of Northern-based multinational companies, which own most of these patents.

If their demands are met, many fear this will reduce technology transfer to developing countries and perpetuate technological and economic dependency, as they could not afford to buy the expensive patented products needed to develop their own national industries.

The US has taken a lead within GATT on this issue. In October Carla Hills, the US Trade Representative, visited India and demanded that India should enforce intellectual property rights, especially in pharmaceutical patents, trade marks and publishing copyrights.

She said that if India did not conform with US demands, Washington would impose restrictions on Indian exports to the US, such as textiles. Hills was in Beijing in November where she unsuccessfully tried to convince Chinese leaders to change their laws to safeguard US intellectual property rights.

Some observers see a contradiction in the position adopted by the North. While calling for liberalisation of trade in goods, even in services — thereby removing all tariffs and several non-tariff barriers — they want to impose and enforce an intellectual property system which constrains world production.

The current impasse in the Uruguay Round poses a serious threat to the growth of world trade. If the talks fail, instead of trade liberalisation there will be potential for trade wars between competing blocs. The negotiating parties have to insist on greater glasnost in GATT and to recognise the need for cooperation in an interdependent world.

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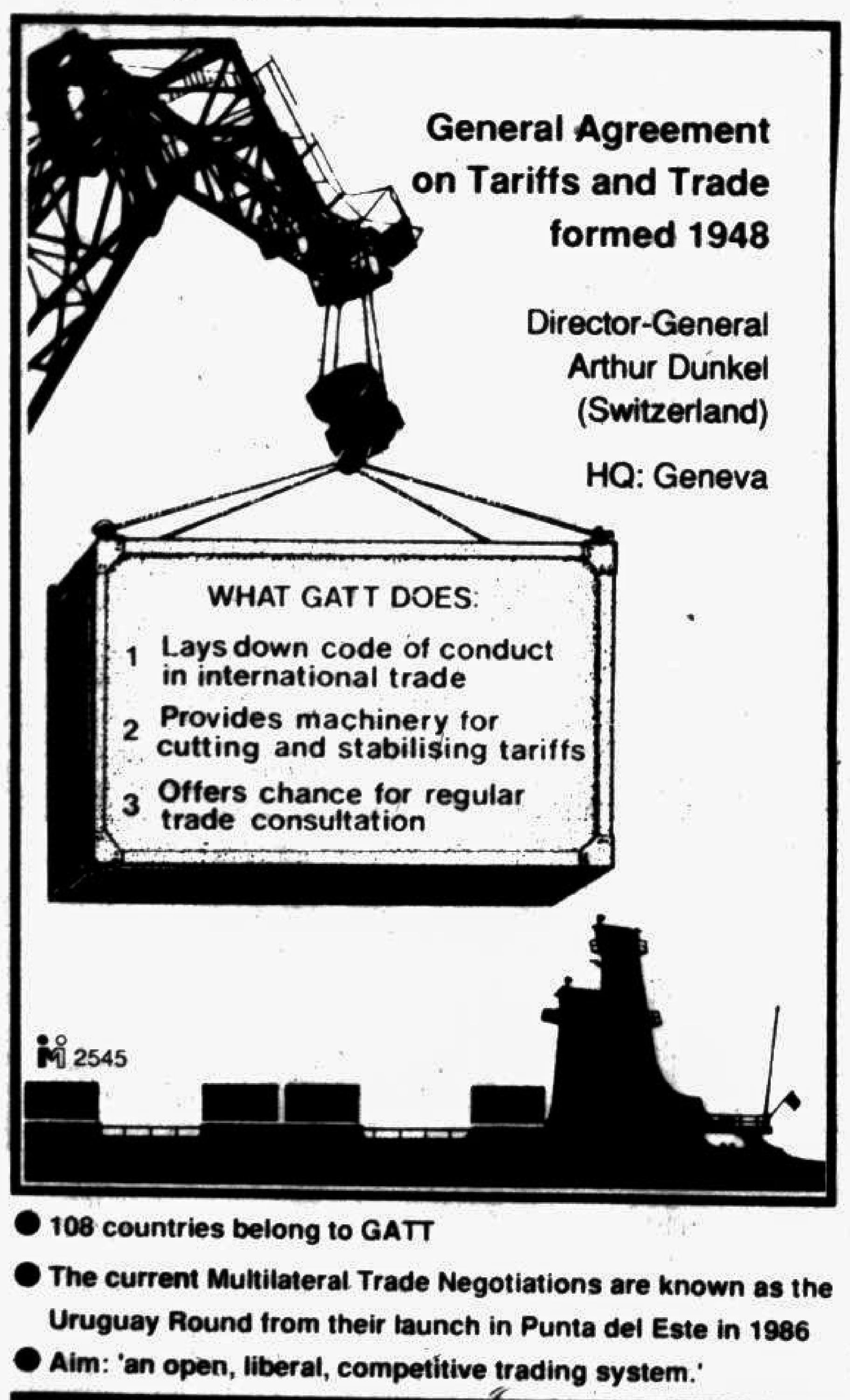

Replacing Coffee with Coffins, Flowers and False Teeth

COLOMBIAN business executives could have been excused for thinking it was joke w ıen they received a government pamphlet called The Pilot Plan for the Export of Coffins.

The pamphlet was no hoax. It was published to announce yet another imaginative plan by trade promotion officials seeking to diversity Colombian exports.

Over the years the Colombian government export promotion agency, Proexpo, has supported dozens of such programmes. As a result, the country has become less dependent on coffee as its principal source of foreign exchange.

The export diversification project has attracted millions of dollars in foreign investment and technology, creating jobs in the process. And foreign reserves have soared to a record level of more than $US 6 billion.

Not all Proexpo projects have been overwhelming successes. The coffin-export programme, for example, has found US markets but has been of only marginal significance in terms of national export earnings.

By contrast, Colombia's flower export trade, which started with only a few dozen nursery workers less than 30 years ago, now provides employment to 75,000 people. It generates exports worth more than $200 million a year, and has grown so quickly that Colombia now ranks with Holland and Israel as a world leader in the field.

Colombian blooms are on sale in North America and Europe in ever-increasing quantities, despite geographic distances and high air-freight costs. The industry and other new export sectors have blossomed partly thanks to Colombia's low labour costs — a minimum monthly wage of $100 helps keep Colombia competitive overseas — and partly because entrepreneurs have been quick to take advantage of Colombia's natural resources.

Soil conditions in the highland country around Bogota, the capital, are among the richest in Latin America and ideal for the nation's flower nurseries, most of which are located in the region. The area has an eternal spring climate, and flower growers can fly out their blooms year round, supplying the summer and winter markets in North America and Europe.

Foreign investors have played a key role in developing some new export industries such as the coal and oil sectors. Several dozen international companies are exploring for oil in the country and are developing wells. In the wake of recent discoveries, petroleum exports brought in nearly $2 billion last year, challenging coffee as Colombia's biggest dollar-earner.

Over the past five years, Colombia has also rapidly expanded its coal exports, which were worth $600 million last year. Shipments now total 14 million tonnes a year, and most consignments are exported by the giant Cerrejon complex, which is being developed jointly by the state and the US Exxon group.

Colombia has become one of the world's main coal exporters. It has been able to scoop up foreign markets because of the choice quality of its coal and the proximity of its low-cost mines to ports.

Human rather than natural resources, though, account for the success of one new export sector, the animated book industry. Animated or "pop-up" books contain three-dimensional illustrations which spring up at the reader as pages are opened. The assembly of the illustrations is a skilled task which is painstakingly performed by female employees of the Carvajal printing group, which has established a factory in the country's west.

By siting its factory in a region, where Indian and Hispanic handicrafts are still produced, Carvajal was able to take advantage of native skills and channel them to the manufacture of intricate pop-ups. The venture has prospered to such a degree that Carvajal now exports its animated books to 50 countries, and dominates the market internationally.

The printing industry can count on a winning combination of advanced technology and low-cost but versatile manpower. Similar factors lie behind the swift development of other new dollar-earners such as the leather goods and fresh fruit sectors.

Another new sphere is the shrimp-farm business. Shrimp farms, financed in part with government credit, are being developed in coastal zones, and their exports now generate over $45 million annually.

ESAP Won't Work without POSAP, Say Zimbabweans

EVERYBODY in Zimbabwe these days is learning about ESAP. It stand for the Economic Structural Adjust-ment Programme and for 13 weeks radio, TV and new-spapers are carrying government advertisments putt-ing it straight to the people.

The campaign adverts warn: "It's going to work for us all. It's going to provide more jobs for us. It's work for us all. It's going to make life better, easier, more meaningful for us all. And even our children."

"But before things get better, they are going to be tough. So we should be tough enough to face up to that. We will win, because we want to."

EASP was launched in Zimbabwe early this year and is phased over five years. They publicity campaign kicked off in November with a 30-minute television programme featuring Finance Minister Bernard Chidzero.

The Programme, Insight into ESAP, will run every Sunday for three months. Although government officials say it is home-made, local economists claim it was drafted by the World Bank and the International Monetary Fund (IMF).

Some economists who welcome ESAP because it means trade liberalisation, say it will be doomed unless there is political reform, too.

Though the country is a multi-party state, an opposition is virtually non-existent. It has only three seats in the 150-member Parliament. Worse still, 30 members are directly or indirectly appointed by the President.

Of the remaining 120 — or 117 in the case of the ruling party — the candidates have to be approved by the party before they are fielded as candidates for election.

This reduces them to mere puppets of the party leaders. They situation was made worse by the merger of ZANU (PF) and the former ZAPU as it wiped out the 15 to 20-member opposition from ZAPU.

Human rights lawyer David Coltart argues that ESAP will work only if the government creates and environment in which, people are willing to work. The environment does not exist, as shown, he says, by the current low morale of the people.

Coltart says morale can be boosted only if the government takes the lead. He argues that it is pointless cutting bureaucracy by reducing the civil service without trimming the cabinet.

Corruption, he says, is now worse than during the days of the Willowgate scandal, when ministers were involved in acquiring cars from the government-owned motor industry and selling them at three to four times the controlled price.

University of Zimbabwe political science lecturer Jonathan Moyo says ESAP will succeed only if a political structural adjustment programme (POSAP) gives individuals and communities a stake in the political process.

He adds: "The idea that economic issues are independent variables which can be manipulated without regard for politics is false. We must be honest and recognise that ESAP will not succeed without POSAP."

Although the government seems to be turning a blind eye to the significance of the recent Zambian election, which ousted president Kenneth Kaunda after 27 years, the public is openly talking about the same thing happening in Zimbabwe.

They say it was ESAP that go Kaunda's UNIP kicked out and it is ESAP that will see the ruling ZANU (PF) go the same way.

Latest government statistics show that, by October, for low income urban families foodstuffs had gone up 442.3 per cent from independence and drink and tobacco by 461.3 per cent.

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