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CAPTURING VALUE WORLDWIDE<sup>SM</sup>



## Country Profile: Singapore

*It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.*

*The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?*

*Now around two decades later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.*

A handwritten signature in black ink that reads "Tom S. White, Jr." The signature is written in a cursive, flowing style.

# Singapore: The Jewel in Asia's Crown



Detail of a glazed ceramic mural at the Chinese Chamber of Commerce in Singapore. Established just over one hundred years ago, the organization has a membership of 4000 local ethnic Chinese enterprises.

**A**n alleyway. A group of Chinese stand outside a store on an impeccably paved street, selling fresh dim sums. On the opposite side, an Indian hotel sports a shiny sign, its name displayed proudly in English and Tamil. Two women dressed in typical Malaysian headscarves walk down the small street and emerge onto the main road, which offers a view of the splendid skyline of modern Singapore. Situated on the southern tip of the Malaysian peninsula, this multi-cultural city with lights, pubs and money also charms tourists with its corners of ancient temples, slivers of history and imposing colonialism. Known for its clinical neatness and stringent rules, the Republic of Singapore is a haven for tourists and business people alike.

## Confluence of cultures

The island of Singapore was a part of the Javanese Sri Vijaya Empire and originally had the name Temasek or Sea Town. First mentioned in the 14<sup>th</sup> century Javanese chronicle *Nagarakretagama*, Temasek was a bustling trading port which decayed soon into oblivion. Legend has it that a Malay prince encountered an animal resembling a lion and named the island Singapura or Lion City, considering it to be a good omen. Singapore prospered, but soon was invaded by the Javanese Majapahit Empire and the Thai kingdom of Ayutthaya. These forces drove out King Paramesvara who eventually found the kingdom of Malacca. This realm not only became one of the busiest seaports of the 15<sup>th</sup> century, but also a platform for the propagation of Islam. The 16<sup>th</sup> century saw Singapore changing hands of ownership and becoming part of the Sultanate of Johor in the Malay Peninsula.

## Trading outpost to the British

**Historical growth:** It was only in the 19<sup>th</sup> century with the coming of the British that Singapore regained its prominence as a trading post. The British had a robust trade going with China and they needed a landing base for goods. In 1819, Sir Stamford Raffles signed a treaty with the

*temenggong*<sup>1</sup> Abdu'r Rahman on behalf of the British East India Company to secure Singapore as a British trading post.

Singapore thrived under Raffles. Shipyards, markets, churches and other infrastructure quickly sprung up changing the sleepy seaport into a commercial town. Immigrants began pouring in from all around, attracted by the now tariff-free port, and a flourishing colony with a military and naval base was established. Chinese were the highest number of immigrants, and by 1860 they accounted for 61.9% of the population.

**Singapore becomes an important port:** Singapore's prosperity pressed ahead with the opening of the Suez Canal in 1869 and the advent of steamships. The arrival of the automobile industry created a demand for rubber and tin from Singapore and other South East Asian countries, which was a big boost to its economy. It also became a successful port due to *entrepot* trade, which allowed the entry of commodities with no taxation and minimum restrictions. This allowed goods to be imported duty-free solely for export. Numerous ships brought in medicines, gold, silk, spices, tea, porcelain and other commodities including opium from [India](#).

Singapore and the World	
Nominal GDP (\$)	132.2 billion
GDP Rank	41/183
Per Capita GNI	\$29,320
Per Capita GNI Rank	31/209
Population Rank	118/224
Geographical Area Rank	198/257
Global Competitiveness Rank	7/131
Economic Freedom Index Rank	2/157
Human Development Index Rank	25/177
Major Industries	Electronics, Chemicals, Financial Services, Aircraft

## War, peace and independence

Singapore continued to rise until the Japanese invasion during World War II in 1942. Between 1942 and 1945, the period of the Japanese occupation, its economy suffered a huge setback. Food and other basic commodities were in short supply, while inflation ballooned to enormous proportions. In 1945, [Japan](#) surrendered to the [British](#) who came back to Singapore to find their colony in shambles. But Singapore was blessed by the sea, and it soon began to recover with

<sup>1</sup> Ancient Malay title of nobility, usually given to the chief of public security, responsible for maintaining law

worldwide demand for tin and rubber. By 1949, its economy had stabilized and immigrants flooded in from India, which was undergoing its own struggle for independence.



Singapore became the export center for rubber by the end of 19th century.

**Separation from Malaysia:** Singapore awoke not just economically, but also politically. Increasing sentiments of nationalism were voiced, giving rise to numerous parties. In 1959, the People's Action Party (PAP) was elected with Cambridge-educated Lee Kuan Yew as the Prime Minister who ruled for the next 30 years. In 1965, Singapore and [Malaysia](#) formed a Malaysia Solidarity Convention, but it dissolved

in a few months. With differences growing between the two sides, Malaysian Prime Minister Tunku Abdul Rahman decided to

separate Malaysia from Singapore, leading to its independence on August 9, 1965. The same year, Singapore joined the UN and the Commonwealth of Nations, and became a republic with Yusuf bin Ishak as its first President.

During the early 1980s, Singapore improved relations with Malaysia and [Indonesia](#), and cooperation agreements were signed. Economic ties were renewed with Malaysia, and Singapore became a major investor in the Malaysian economy. By the 1990s, Singapore was known for its tough, even extreme, measures to maintain civil order. Since 1991, the Singapore government has executed over 400 murderers and drug peddlers, gaining the recognition of having the highest execution rate per population in the world.

## A cultural olio

**Diverse culture:** Heterogeneity and diversity define the society of Singapore. A Chinese wedding taking place a few blocks away from a Malay funeral near a Hindu temple would come as no surprise for the average Singaporean. The island is uniquely multicultural with a mélange of Chinese, Indians, Malay and European immigrants. Its neighborhoods stand in testimony to its cultural diversity – Chinatown, Little India and Kampong Glam were formed as early as the 19<sup>th</sup> century according to the Raffles Plan.

Globalization has encroached upon this cultural olio, expressed through Westernization and a yuppie outlook. But Singapore has still managed to retain wisps of its past through the smoke of the incense sticks in temples, the pungent spices in the markets and strains of Chinese opera. Its architecture and fine arts speak of a bygone era colored by colonialism and religion. Structures reminiscent of a British past are manifested in the Parliament House, City Hall and Raffles

Hotel, while Hindu, Islamic and Chinese heritage is represented in edifices like the Sri Mariamman Temple, Sultan Mosque and the Shuang Lin temple.

**Singapore cuisine:** Food brings together the disparate visages of Singapore, arguably the food capital of Asia. Gastronomic delights range from charcoal roasted kebabs on the street to wine and cheese on a platter in a glittering dining room. Cuisines from all over are for the offering – Malay, Thai, Indian, Chinese, Spanish and fusion among others. Food conjugates with the variety of languages, the official ones being Malay, Chinese, English and Tamil.



Typical of Singapore's culture-crossed neighborhoods, the 181-year-old Sri Mariamman Hindu temple, Singapore's oldest, is located in the downtown Chinese district.

## From trading outpost to industrialized nation

**Economic history:** Singapore had humble beginnings as a trading center serving the British East India Company in the 19<sup>th</sup> century. With Raffles' deft administrative planning and management, it quickly morphed from a torpid village to a dynamic port that flourished on entrepot trade. With its transformation attracting immigrants from all sides, Singapore's economy flourished.



Beginning with humble origins as a small seaport trading tin and rubber, Singapore has been ranked the world's busiest port by shipping tonnage since 1986.

**Rubber and tin economy:** Early 20<sup>th</sup> century saw Singapore expand its financial institutions, communications and infrastructure to support its galloping trade and industry. World War I affected the Singapore economy as well, but it quickly rebounded. Industrialization was taking the world by storm, especially the automotive industry, and Singapore was one of the main sources for tin and rubber. The demand for these products arose from the fledgling automotive industry, which was fast expanding. But World War II wreaked havoc and Singapore was tattered. The

Japanese occupation ended in 1945 and the British returned to their former trading post to find it completely wrecked. Frequent bombings left black voids not only in the infrastructure, but also in the people - food was in short supply along with medicines and there were thousands left homeless. There was labor and social unrest accompanied by low wages and high

unemployment, made worse by a rapidly expanding population. But the island leapt up on its feet soon enough and by 1949 it was back on track to cater to the tin and rubber demand once again.

## Promoting export industries

**Economic changes:** The 1960s was a politically and economically crucial time for Singapore. The PAP government took over the ruling reins and set about upgrading Singapore from an economy dependent on its entrepot trade to a manufacturing-based industrialized society. In 1965, with all hopes of sharing a free market with Malaysia dashed, the government planned an economic facelift, which included converting large unused plots into industrial estates. It emphasized labor-intensive industries such as textiles to cure the ills of unemployment, which was rampant. Goh Keng Swee, the-then Finance Minister, drove rivets into existing foreign relations, courted new ones and enticed capital inflows for more investments. Promoting export industries and trade and loosening its dependence on Britain as the major source of investment capital proved to be powerful and Singapore a high rate of growth that averaged 8.0% from 1960 to 1999.

## Luring industry to Singapore

**Foreign investment:** During the 1970s, foreign investors began to be attracted by an improving labor situation, incentives like tax relief for up to five years, and unlimited repatriation of profits and capital in government-favored industries. The years of the comparatively untroubled 1980s were followed by the financial crisis of 1997. This densely-populated country weathered the crisis more stolidly than other economies by working towards direct cost-cutting measures, such as wage and operating cost reductions to maintain its competitiveness. With such strategies, the economy picked up soon and registered a growth rate of 9.4% in 2000.

Today, Singapore is ranked as a developed economy and the tiny city state has some of the best infrastructure in Asia, if not the best quality of life in Asia, according to the Economist Intelligence Unit. With a remarkably corruption-free environment, Singapore is ranked first in the ease of doing business out of 183 economies,

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The country's trademark symbol, the Merlion, welcomes visitors to Singapore, which has been ranked the most globalized nation out of 20 developed countries

according to the 2010 *Doing Business Report* published by the World Bank and the International Finance Corporation.

## **Global financial crisis derails economy**

**Recession drags down growth:** All those decades of hard work were almost ruined when the global financial crisis hit the Singaporean economy hard. The country has always relied on exports to fund its economic growth, and as demand slumped in key markets in the U.S., and Europe, its export industry took a beating.

In 2009, the Singapore economy shrank 2% with the construction sector the only one to post double-digit growth. Manufacturing, which accounts for the biggest share of the country's GDP contracted by 4.1%, leaving the government worried. However, as the global economy picked up, so too did the Singaporean economy. Showing surprising resilience, it was the manufacturing sector that led the way along with the export industry.

**Fastest growing economy:** And the results were nothing short of spectacular. The economy power-surged its way to an astonishing 18.8% growth year-on-year in the second quarter of 2010. Much of the scorching pace of growth has been driven by a rise in the output of biomedical manufacturing, and continued expansion in the nation's electronics sector. This tiny state, in September 2010, held the distinction of being the fastest growing economy in the world, an incredible achievement for a nation that is often eclipsed by much bigger Asian powerhouses like [Thailand](#), China or India.

**Future prospects for the economy:** Trade Minister Lim Hng Kiang has warned that recent fiscal austerity measures introduced in the European Union (EU) might affect Singapore. The EU accounts for around 12% of Singapore's exports and weakening EU demand might further dent its export sector. The Singaporean economy is one of the most globalized, if not *the* most globalized, according to an A.T. Kearney report on globalization. This exposure means that while the economy stands to gain the most during times of a global boom, it can also collapse spectacularly when the global economy sputters, as happened during the financial crisis.

With both the [U.S.](#) and European markets expected to be sluggish for a while, Singapore's challenge lies in igniting domestic consumption, of which the government is keenly aware. Toward this end, officials have recently allowed gambling, and two new casinos have opened. Since then, tourist arrivals have picked up, with more than three million visitors touring the country in the first six months of 2010.

## **Economic forecasts:**

- 🌐 The Singapore government now expects the Singapore economy to rise by as much as 13% to 15% in 2010, leaving behind bigger economies such as China and India.
- 🌐 Goldman Sachs has upgraded Singapore's economy, anticipating it will grow 16.5% in 2010.
- 🌐 Citigroup forecasts the economy to expand 15.5% in 2010 and 4.6% next year.
- 🌐 ADB expects growth of 14% in 2010.

## **The hottest economy in the world**

Ranked as the second freest economy in the world, Singapore has come a long way from being a tiny vessel of trade sailing through the murky waters of war to being a feisty city with glass buildings smacking of wealth and business deals. Today, it is one of the hottest little economies in the world. Asia is not an easy region to stand out economically – the continent, is after all, expected to lead the global economic revival. From China to India to Indonesia to Thailand, Asia's brightest lights shine powerfully.

Into this elite circle, enter Singapore. The tiny state can well and truly claim to being Asia's finest – in terms of infrastructure, in terms of political stability, in terms of freedom in doing business, and now economically. Singapore's future lies in enthralling visitors with its variety in every walk of life, with its inviting city lights reflecting off polished buildings where open and liberal deals are signed. Its lanes come alive with the vibrant colors of spices and the smiles of bargains being struck. The future of Singapore is here, today. 🌐

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