

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES
ROOM C-525

0450

SM/94/49
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

March 15, 1994

To: Members of the Executive Board
From: The Secretary
Subject: Singapore - Selected Background Issues

The following corrections have been made in SM/94/49 (2/25/94):

Page 59, second para.: revised

footnote 2/: revised

Page 68: delete "1991 Formation of East Asian Economic Caucus."
add "1989 Singapore becomes...(APEC);" and
"1993 ASEAN Economic Ministers...Economic Caucus."

Corrected pages are attached.

Att: (2)

Other Distribution:
Department Heads

SECRET

SECRET

b. The exchange system

From 1973 to 1981 the exchange rate of the Singapore dollar was freely determined in the foreign exchange market. However, since 1981 the MAS has monitored the external value of the Singapore dollar against a trade-weighted basket of currencies, with the objective of promoting noninflationary sustainable growth, and sets its intervention policy accordingly. Foreign currency futures are traded on the Singapore International Monetary Exchange (SIMEX) and there is an active short-term currency swaps market among banks in the domestic money market. There are no formal exchange controls, restrictions on current account transactions, or foreign exchange surrender requirements. Moreover, there are no restrictions on capital transfers, or on direct or portfolio investment either by nonresidents in Singapore or by Singapore residents abroad. However, financial institutions granting loans in excess of S\$5 million to nonresidents, or to residents for use outside Singapore, must consult the MAS.

c. Singapore and regional initiatives

Singapore is one of the founding members of ASEAN formed in 1967, 1/ and is also a member of the Asia-Pacific Economic Cooperation Forum (APEC). 2/ ASEAN member countries have also endorsed the formation of a proposed East Asian Economic Caucus (EAEC). Prospective members of the EAEC would include the six ASEAN countries plus other East Asian members of APEC. Two major regional initiatives involving Singapore have resulted from these groupings so far: the ASEAN free trade area (AFTA), and the regional growth triangle between Indonesia, Malaysia, and Singapore.

(1) Singapore and the ASEAN free trade area

In addition to a limited range of preferences granted under a previous preferential trade agreement, ASEAN member countries entered into an agreement to form a free trade area. The aim of the Common Effective Preferential Tariff scheme (CEPT), which officially took effect on January 1, 1993, is to achieve a common preferential tariff within ASEAN of 0-5 percent on manufactured and processed agricultural goods within 15 years (by January 1, 2008). Quantitative restrictions and other nontariff barriers are also to be eliminated. Within these maximum periods, each member is free to determine the timing of its tariff reductions. Accordingly, the implementation schedule varies considerably among member countries, with those members with higher levels of protection tending to have a more back-loaded program of proposed reductions. 3/ Singapore, with its low level of tariffs, had already met the 0-5 percent target for

1/ The other founding members were Indonesia, Malaysia, the Philippines, and Thailand. Brunei joined in 1984.

2/ APEC consists of the six ASEAN members plus Australia, Canada, China, Hong Kong, Japan, Korea, Mexico, New Zealand, Papua New Guinea, Taiwan Province of China, and the United States.

3/ For a more detailed description of the original CEPT scheme see the 1993 RED for Thailand (SM/93/99).

all included products. In addition, Singapore completely eliminated duties on trade with other ASEAN countries with the exception of about 120 tariff lines that are permanently excluded under the terms of the CEPT scheme. At the ASEAN economic ministers' meeting in Singapore in October 1993, agreement was reached to speed up the implementation of the CEPT scheme by other ASEAN members, with tariff cuts to begin in January 1994.

While the AFTA agreement will provide opportunities for increasing intra-ASEAN trade, it is also expected to improve the climate for FDI in the region, particularly for U.S. multinationals. Hence, it is unlikely that ASEAN countries would replace the United States as Singapore's major export market in the foreseeable future.

(2) The Johor-Riau-Singapore growth triangle

Concern with the slow pace of trade cooperation and trade liberalization, and the difficulty of always having to reach consensus among the six member nations of ASEAN, led to the emergence of the growth triangle concept. The southern growth triangle linking Singapore with adjacent areas of Malaysia (Johor) and Indonesia (Riau) was proposed by the then Deputy Prime Minister Goh Chok Tong of Singapore in 1989. ^{1/}

There is no formal trilateral agreement for this arrangement. The "triangle" remains primarily a set of bilateral agreements with Singapore as the growth pole; the Johor-Riau side of the triangle is the least developed. Two agreements have been worked out between Singapore and Indonesia outlining Singapore's role in the development of the Riau province, and Indonesia's undertaking to supply water to Singapore as well as guaranteeing investments in Indonesia. The idea behind the growth triangle was to take advantage of the resource complementarity (the technology of Singapore with the land and abundant labor of Johor and Riau) and the geographic proximity of the regions. Singapore would benefit from the reduced pressure on land and labor, and Johor and Riau would gain from increased investment inflows from Singapore. While economic linkages between Singapore and Riau were limited prior to the initiative, the relaxation of regulations governing FDI in Indonesia, and the consistent support of the Singapore Government, has begun to overcome the early reluctance of foreign multinationals based in Singapore and led to a surge of Singapore investments in Riau. Johor has also benefitted from its proximity to Singapore and the relaxation of Malaysian foreign investment rules and regulations.

The impact on Singapore can be seen mainly in the outward investment in Johor and Batam Island (Riau Province). Foreign equity investment in Johor from Singapore more than tripled to US\$200 million in

^{1/} Two other growth triangles have been initiated within ASEAN. A northern triangle linking Indonesia, Malaysia, and Thailand, and an eastern triangle linking Indonesia, Malaysia, and the Philippines.

Table VI-2. Singapore: Key Steps in the Liberalization
of Singapore's Trade and Exchange System, 1959-93

1959	Introduction of import quotas in support of an industrialization program.
1965-69	Replacement of quantitative restrictions with tariffs.
1967-73	Progressive reduction of tariff levels.
1968	Operation of the first ACU begins.
1968	Singapore accepts the obligations of IMF Article VIII.
1970	Entry of foreign banks into Singapore liberalized.
1973	Singapore dollar is allowed to float.
1973	Inauguration of the SES.
1973	Dealings in the gold market are completely liberalized to allow resident participation.
1975	The cartel system of determining interest rates is abolished. Banks are free to quote their own rates of interest.
1977	Formation of ASEAN Preferential Trading Arrangement.
1978	Exchange control is completely liberalized. Residents are free to borrow and lend in all currencies as well as deal freely in foreign exchange.
1978	The Gold Exchange of Singapore begins operations (the first gold futures market in the Asia-Pacific region).
1981	Policy initiated of monitoring Singapore dollar against weighted basket of currencies with inflation as target.
1981	487 protective duty rates lowered from 15 percent to 5 percent.
1984	The SIMEX introduces trading in the International Gold Futures Contract.
1984	Financial futures trading is launched with a mutual offset link between SIMEX and the Chicago Mercantile Exchange.
1984	ACUs are allowed to issue negotiable certificates of deposit denominated in Japanese yen.

Table VI-2. Singapore: Key Steps in the Liberalization
of Singapore's Trade and Exchange System, 1959-93

- 1987 The SES allows foreign entities to own up to 49 percent of the share capital of local stockbroking companies. Foreign shareholders may be allowed to increase their shareholdings to 70 percent after 3 years.
- 1989 Singapore becomes one of the founding members of the Asia-Pacific Economic Cooperation Forum (APEC).
- 1990 "Growth Triangle" initiative with Indonesia and Malaysia.
- 1993 Initiation of the CEPT Scheme for the ASEAN free-trade area.
- 1993 ASEAN Economic Ministers agree on the composition of a proposed East Asian Economic Caucus.