



Singaporean-German Chamber
of Industry and Commerce
Deutsch-Singapurische
Industrie- und Handelskammer

Singapore's Role in the Region's Future Economy

To the Committee on the Future Economy

Crafted by the Singaporean-German Chamber of Industry and Commerce
(SGC)

Contribution to the CFE's Goal to Position Singapore for the Future

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Table of Contents

I. Executive Summary.....	3
II. Background	3
A. Singapore's Role in ASEAN from a German business perspective	3
B. Germany's Role in ASEAN from a German business perspective	4
III. Assessment of Current Situation.....	5
A. Singapore's Outlook.....	5
B. Germany's Outlook	8
IV. Recommendations	9
V. Annex.....	11

I. Executive Summary

Singapore is currently a strong base for more than 1,500 German companies amongst many of other international corporations which largely use Singapore for their regional strategy. However, rapid developments in industrial production, urbanization, use of ICT and many other factors will shape the future of the entire ASEAN region and Singapore will have to lead in certain areas to stay ahead of the competition.

This paper concentrates on Singapore's possible role in the region with the perspective on how German institutions and companies can play a part in it. Several areas were identified in which Singapore could take a leading role within the region to support its healthy and sustainable development. They cover inter alia governance, education, technological advancement, city-planning and urbanization. Next to research, this paper also incorporates feedback from SGC Board and Advisory Board members and the Chairmen of the SGC expert groups (committees).

This paper only focuses on several aspects related to business and economic development. It does not cover political or security issues. The recommendations at the end of the paper are derived from the above sources and discussions.

II. Background

A. Singapore's Role in ASEAN from a German business perspective

As one of the founding members of the Association of Southeast Asian Nations (ASEAN), Singapore has ever since played a unique role in this regional bloc of countries. Among the 10 member states – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – Singapore is considered the most developed country. According to the United Nations Development Program, Singapore is positioned 11th in the human development index¹ worldwide and number one in ASEAN. The index looks at three dimensions, including health (measured life expectancy at birth), education (measured by mean of years of schooling for adults aged 25 years and more, and expected years of schooling for children of school entering age) and standard of living (measured by Gross National Income per capita). The highest index countries can achieve is 1.000. In 2015, Singapore showed a value of 0.901, Germany, on place 6 overall has a value of 0.916. Brunei comes second in ASEAN, with a score of 0.852. The average score in ASEAN is 0.669.

Since Singapore shows advanced levels in education, technology, global network and development, the city-state is in the position to create a pool of world-class talent and professionals. Its role can be even more expanded by providing leadership, technology and infrastructure for ASEAN. Moreover, Singapore is considered to be the financial and commercial center of the region. In recent years, it

¹ According to the United Nations Development Programme, the Human Development Index is defined as "a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions"

has pushed for further ASEAN economic integration and at times serves as a bridge between ASEAN and other nations^{2,3}.

Singapore has invested a significant share of resources in its developing neighboring countries which are also part of ASEAN. Apart from this, the city-state has made financial contributions to the Initiative for ASEAN Integration (IAI). According to the Singapore Cooperation Program, the country's financial commitment comprised S\$59.5 million for a five-year period from 2001 to 2005. A further contribution was made between 2006 and 2008, with a value of S\$28.9 million. From 2009 to 2011, another S\$30 million were donated to the initiative in order to promote technical assistance projects. Singapore's fourth donations amounted to S\$50 million between 2012 and 2015. This initiative promotes integration within the region and strengthens ASEAN's competitiveness as a region when it comes to trade and investment. The IAI adopted a framework mainly designed for the newest members of the ASEAN region, namely Cambodia, Laos, Myanmar and Vietnam, to assist them in their integration efforts⁴. Apart from its financial donations, Singapore also established four training centers to bring forward the integration of the ASEAN bloc. These are set up in each of the new member states Cambodia, Laos, Myanmar and Vietnam⁵.

In terms of the business environment, Singapore was ranked being the easiest place of doing business both in 2014 and 2015. The other member states of the ASEAN ranked far more behind, leaving scope for improvement (see Table 1). This goes along with a low corruption perceptions index in Singapore in 2013 and 2014 (see Table 2). The other ASEAN nations were not that successful yet, and will have to find strategies on overcoming corruption in the future⁶.

B. Germany's Role in ASEAN from a German business perspective

Germany plays an important role in ASEAN, being present through the Network of German Chambers of Commerce and Industry in ASEAN, the so-called 'German ASEAN Business Council (AHK-ASEAN)'. This network was established by the German bilateral chambers abroad (AHK) in 2012 and is active in the ASEAN-6 countries Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam⁷. The reason for setting up this network was to strengthen the regional cooperation within the bloc on the one hand and to foster trade and investment relations between ASEAN and Germany on the other. In 2013, a new AHK office was founded in Myanmar, showing the increasing interest and commitment of the German Government and businesses to assist German companies in building up ties to new markets.

The Chamber network is a vital part of a broad German presence in ASEAN. Germany has embassies in all ASEAN countries which focus on the political and defense, but also the economic, scientific and cultural cooperation with their host countries. Furthermore, institutions like the Goethe Institute, the German Schools Abroad, the German Centre Singapore, the Fraunhofer Institute and the

² <http://www.ejinsight.com/20150420-singapore-pivotal-role-asean/>

³ <http://www.mas.gov.sg/singapore-financial-centre/overview.aspx>

⁴ <http://asean.org/asean-economic-community/initiative-for-asean-integration-iai-and-narrowing-the-development-gap-ndg/>

⁵ https://www.scp.gov.sg/content/scp/iai_programmes/about.html

⁶ <http://www.seattletradealliance.com/blog/blog/post/singapores-economy-and-its-role-in-asean>

⁷ <http://www.aseanchambersnetwork.com/>

Technical University of Munich, among others, also contribute to fostering these ties in their respective areas.

The significance of German-ASEAN relations – as well with regard to the bilateral relations to all 10 ASEAN states as with regard to ASEAN as a body - has just been politically recognized in granting Germany the status as “ASEAN Development Partner”. This ensures for the future – in parallel to the EU-Dialogue Partnership- an even more intense German-ASEAN Cooperation.

From an economic viewpoint, ASEAN is one of the most crucial and interesting regions to do business with as growth is predicted to be relatively steady in the next three to five years, unlike other regions that are not considered as stable⁸. The region is highly heterogeneous, showing different levels of economic development, population growth, education, quality of life and income. Based on that, German companies mostly see opportunities rather than obstacles in the region. However, with around 1,500 German companies in Singapore, the city-state is the clear favorite for setting up regional headquarters.

With regard to Foreign Direct Investment (FDI), the stock of FDI coming from Germany has increased over the past decade although being subject to a certain degree of volatility. Nearly 1.9% of the total stock of German FDI is invested across the ASEAN, coming to over €18 billion^{9,10}. Moreover, 75% of German companies aim to raise their investment levels into the region or make their first investment if they have not done so far. Out of these 75% more than half of them (58%) are considered Mittelstand companies¹¹.

Germany and other advanced economies see the ASEAN bloc develop into an effective and prosperous area next to the BRICS bloc, which Brazil, Russia, India, China and South Africa belong to. Based on a study of Ernst and Young and the ASEAN AHKs, Vietnam, Cambodia and Myanmar reveal the largest potential for investment growth from German investors. Nevertheless, the stock of FDI remains relatively low in these countries when compared to more developed nations such as Singapore, Malaysia and Indonesia¹².

III. Assessment of Current Situation

A. Singapore's Outlook

Singapore, role model for the region

Singapore has performed successfully in the past decades and is therefore seen as a role model for other ASEAN member states. However, Singapore's economic growth has slowed down for three years in a row and certain measures need to be taken into consideration in order to curb the economic downswing and bring back the economy to a healthier pathway. While Vietnam and Indonesia are currently top performers of productivity growth, Singapore is confronted with less scope of catch-up growth as it has already reached a high productivity level. However, the country's

⁸ <https://www.oecd.org/site/seao/Pocket%20Edition%20SAEO2014.pdf>

⁹ <http://indonesien.ahk.de/news/detail-news/artikel/germany-to-increase-investment-in-asean/?cHash=956457fd7ad8f0740ad99fc2abc2b406>

¹⁰ [http://www.ey.com/Publication/vwLUAssets/EY_Studie_-_ASEAN_and_beyond_2015/\\$FILE/EY-Studie-ASEAN-2015.pdf](http://www.ey.com/Publication/vwLUAssets/EY_Studie_-_ASEAN_and_beyond_2015/$FILE/EY-Studie-ASEAN-2015.pdf)

¹¹ [http://www.ey.com/Publication/vwLUAssets/EY_Studie_-_ASEAN_and_beyond_2015/\\$FILE/EY-Studie-ASEAN-2015.pdf](http://www.ey.com/Publication/vwLUAssets/EY_Studie_-_ASEAN_and_beyond_2015/$FILE/EY-Studie-ASEAN-2015.pdf)

¹² [http://www.ey.com/Publication/vwLUAssets/EY_Studie_-_ASEAN_and_beyond_2015/\\$FILE/EY-Studie-ASEAN-2015.pdf](http://www.ey.com/Publication/vwLUAssets/EY_Studie_-_ASEAN_and_beyond_2015/$FILE/EY-Studie-ASEAN-2015.pdf)

output per worker has increased by 1.5 percentage points per annum from 2000 to 2015.¹³ Based on that, Singapore outperforms other high-income economies. In overall terms, the region's economies have been able to push productivity growth accompanied by robust growth in employment. Nevertheless Singapore's economy requires an increase in productivity, facilitated by more investment in efficient production methods. Germany's technological know-how and expertise can be beneficial for Singapore in this process. Germany has experienced a similar slope in productivity in the past and has been able to recover.

New industrial environment is developing

During a round-table talk with German companies (19.08.2016), the expectation was voiced that rapid shifts in industrial development will occur in the future, considering trends such as Industry 4.0, IoT, Additive Manufacturing and related topics. As a consequence, the business development will be new in ASEAN – as well as in other regions – and will have also an effect on workforce, qualifications, skills, supply chain, logistics and many more areas. Singapore will have to define which role it wants to play with the regional development in mind.

Increasing urbanization in the region – an opportunity for Singapore

When considering the region's economic sectors, there has been a sectoral shift away from labor-intensive sectors, such as agriculture, towards more capital-intensive sectors. For example, Vietnam's workforce employed in the agricultural sector has shown a decline from 61% in 2000 to 44% in 2015. Indonesia and the Philippines have taken advantage of this shift as well. However, there has been only a small impact on ASEAN's high-income economies like Singapore and Malaysia as they faced sectoral shifts in previous decades. High value-added sectors, such as financial and business services, only make up a small share of employment in most of the region's nations. While Indonesia's workforce employed in these sectors accounts for only 2%, Malaysia has 10% of its workforce employed in these sectors. And there is an even higher share in Singapore as it is the financial and business hub of the ASEAN region^{13,14}.

As sectoral shift and urbanization are closely related, urbanization has changed accordingly and builds a chain reaction. Since high value-added workplaces are most likely to be found in cities¹⁵, labor has moved from rural areas to cities, thereby showing an increase in the urbanization rate. Urbanization is the key to facilitate access to technology. Moreover, it keeps the transaction costs of companies at a low level¹⁶. If urbanization continues in ASEAN, this might enable the region to compete better against the economic powers of China and India. However, a stronger integration of the AEC might be necessary to act as one block instead of being seen as individual states and economies. Singapore status as the major financial and business hub in Southeast Asia will most probably be strengthened, too. Also, there is the opportunity of sector-specific knowledge being exchanged between firms, known as agglomeration effects.

Vietnam, Indonesia and Malaysia will face an increasing proportion of residents living in urban areas over the upcoming years, with a 7% increase in Indonesia, a 6% increase in Malaysia and a 3% increase in Vietnam.¹⁷ Based on this development, there will be a further shift towards high value-

¹³ <https://www.singstat.gov.sg/publications/singapore-in-figures>

<http://www.aseanbriefing.com/news/2016/04/22/singapore-overtakes-hong-kong-in-finance.html>

¹⁴ <https://www.gov.uk/government/publications/exporting-to-singapore/exporting-to-singapore>

¹⁵ http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_092054.pdf

¹⁶ <https://www.iseas.edu.sg/images/centres/asc/pdf/UrbanSEAsia-prelimasof13Jul10.pdf>

added sectors, like the manufacturing and service sector, in all three countries. While an increase in services sectors creates jobs and income, it generally contributes less to trade and productivity gains than the manufacturing sector. Hence, Singapore might want to maintain and further increase the manufacturing sector. The rising urbanization of Singapore's neighboring countries goes in hand with an overall improved economic development of these countries. This enables enormous opportunities for the highly developed city state to get involved in these emerging and demanding markets. One of the highly established expertise of Singapore is urban planning and development. Exporting this knowledge in the ASEAN countries might be advantageous for Singapore in many areas. It should add to job creation in Singapore, manifest an income stream; it helps setting standards in the region, and supports achieving thought leadership in this area for Singapore. It also helps diminishing unwanted side effects of poorly planned urbanization and city-development. Other highly developed areas are the finance and insurance sectors, hub for connectivity, R&D, IP protection, Start-up scene, trade and logistics.

Export Financing to support internationalization of companies

Thinking about enhancing export financing in ASEAN, one idea is to create an Eximbank of Singapore. It would support the financing of companies producing in Singapore and exporting to the ASEAN countries. SMEs and MNCs would both benefit from such a financial institution. Moreover, such an Eximbank could co-ordinate its activities with other players, such as Hermes credit insurance of Germany for products coming from German manufacturer in Germany. The larger solution would be to build an infrastructure in Asia co-ordinating with World Bank, IFC, ADB and AIIB and other ECAs in Japan, Korea and Europe. Singapore could rise to being the centre for project finance activities in Asia.

Training for productivity

The workforce in ASEAN is and will not only be confronted with a sectoral shift, but also with an increase in the working age. For example, in Vietnam and Indonesia the so-called "prime-age", meaning between 25 to 54 year olds¹⁸, share of the workforce has risen over the last 15 years. Singapore's workforce has been ageing very rapidly as well. It is only the Philippines, Thailand and Malaysia where demographic trends have been quite stabilized. However, the forecast suggests that Malaysia, Vietnam and the Philippines will be confronted with a further increase in the share of workers who belong to the prime age category. In contrast, Singapore will see stabilization in its prime age share. This has effects on training needs, skills development, innovation, adapting of new technologies, entrepreneurship and the development of the workforce. The use of new IT solutions might enable countries to leapfrog certain development stages know so far. Singapore has to be prepared for it but might also be able to obtain a leading position in the region by contributing to better education and skills training in the AEC, enhancing the overall level of skills and knowledge and strengthening the region.

Based on the previous analysis, one can say that there is a strong outlook for overall productivity growth in the region. Vietnam continues to contribute most of the share to productivity growth, at just below 5% per annum. Indonesia contributes nearly the same share as Vietnam¹⁷. Singapore is a well-developed city with a highly-educated and urbanized workforce. Growth in output per worker is expected to range between 1.5% and 2.0% per annum. However, if Singapore aims to remain the economic leader in the region, the local SMEs need to prepare for a more professional

¹⁷ <https://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf>

internationalization strategy, as well as products that are innovative, useful for the ASEAN region and that are able to withstand competition from other manufacturers. These points were raised during discussions with German companies during a round table talk (19/08/2016), as well as during discussions at the most recent 'Germany-Singapore Business Forum (GSBF)' on 29.08.2016. Singapore's expertise in urban development, public transport, good governance and economic development however can be shared with, or exported to the other ASEAN countries. A strong and stable ASEAN should also be in Singapore's interest. Even though it might create more competition at some ends, it is necessary to compete with strong economies such as China or India. Especially in establishing similar and comparable sets of standards will strengthen the region. On the level of business co-operation, the experience of German Mittelstand companies abroad, as well as the AHK Chamber network can be an excellent contact point for Singaporean companies to partner with suitable companies.

Economic prospects for ASEAN

Despite of the structural outlook for the ASEAN being positive, short-term conditions remain rather weak due to a prolonged decline in global trade which is assumed to continue. This will further weigh on growth prospects in the ASEAN region. Thus, there is an urgent need for a policy stimulus in nearly all of the ASEAN economies¹⁸. To prevent negative growth trends and inflationary pressure from further continuing, central banks in Indonesia and Singapore have adjusted their monetary policy in 2016 and it is predicted that central banks keep up policy easing in the near future. Malaysia and Vietnam are currently following up on fiscal consolidation measures¹⁹.

When it comes to prospects for the ASEAN economies in 2016 and 2017, monetary and fiscal policy will be still limited in scope. Rather external developments will be the main engine of growth. Although there will be a slight improvement in global trade growth in the coming months, it will be only gradual and discontinuous²⁰. Growth prospects will be the most flourishing in Vietnam because of the country's wage competitiveness which allows for higher FDI stock and market share in rather labor-intensive industries. The growth outlook in the Philippines and Indonesia should be sound thanks to a healthy domestic demand and strong macroeconomic fundamentals. Malaysia will most probably be confronted with a significant downturn in economic growth as a result of lower oil prices, a simultaneous terms-of-trade shock and declining government revenues. In the case of Thailand and Singapore, both economies might struggle as both of them have been severely affected by the global trade slowdown and their respective structural problems^{21,22}.

B. Germany's Outlook – Needs of employment markets similar

Economic ties between Singapore and Germany, as well as ASEAN and Germany have been very strong in recent years, especially in regards to industry and research institutes, as well as R&D activities. More than 1,500 companies have decided to use Singapore as their regional center to

¹⁸<http://www.icaew.com/~media/corporate/files/technical/economy/economic%20insight/south%20east%20asia/q2%202016%20sea%20web.ashx>

¹⁹ <http://www.adb.org/sites/default/files/publication/29121/tax-reforms-fiscal-consolidation.pdf>

²⁰<http://www.icaew.com/~media/corporate/files/technical/economy/economic%20insight/south%20east%20asia/q2%202016%20sea%20web.ashx>

²¹<http://www.icaew.com/~media/corporate/files/technical/economy/economic%20insight/south%20east%20asia/q2%202016%20sea%20web.ashx>

²² [http://www.ey.com/Publication/vwLUAssets/ey-2015-global-insurance-outlook/\\$FILE/ey-2015-global-insurance-outlook.pdf](http://www.ey.com/Publication/vwLUAssets/ey-2015-global-insurance-outlook/$FILE/ey-2015-global-insurance-outlook.pdf)

benefit from the opportunities in the rapidly emerging ASEAN region. Especially for mid-sized German companies or rather Mittelstand companies, Singapore is an attractive country in Southeast Asia. Like many others, German companies appreciate the country's stable environment, highly-skilled workforce and sophisticated infrastructure. The backbone of the German economy are the Mittelstand companies which employ more than half of the German workforce. They often operate in niches and some obtain such a high level of product sophistication that they are market leaders²³. The German workforce is characterized as a highly competent talent pool, especially within the engineering field. Germany's dual-education and university system plays a vital role for talent development and research co-operation between companies and universities. Singapore and Germany could intensify collaboration in the future since the needs for the Singaporean employment market has certain similarities with the German challenges of the future.

Trusted partnership for many years – solid base for future bilateral business activities

The relationship between Germany and Singapore is based on respect and trust. Since both countries are characterized by stable economies and follow a more pragmatic, partnership-oriented and innovative approach in doing business, it is no surprise that Germany and Singapore have strong economic ties: Germany is Singapore's largest trading partner in the EU while Singapore is Germany's largest trading partner in Southeast Asia²⁴. Apart from multinational corporations, German Mittelstand companies have set up their manufacturing and R&D base in Singapore because they see the country as a high-value manufacturing and R&D hub. Furthermore, well-known research institutes and universities, as well as a great pool of international talent and strong IP protection create an efficient R&D environment that allows for successful innovation throughout the whole of Asia.

In the last few years, Germany's R&D activities in Singapore have further intensified, covering numerous projects. TUM Asia, TUM Create, Fraunhofer IDM @ NTU are just the most well-known collaborations in this field. Furthermore, shared academic programs between Germany and Singapore exist, ranging from natural and medical science to humanities and automation engineering²⁵. German academic institutions can provide assistance for implementing Singapore's ambitious Smart Nation Initiative, by offering research collaborations in the field of Industrie 4.0 and Internet of things (IoT). Germany can benefit from the close ties to one of the most promising future economic regions and will have the opportunities to further expand German technology and know-how together with Singaporean institutions.

IV. Recommendations

1. Singapore should concentrate on its own strengths to advance the ASEAN economic integration. These areas include education, governance, city-planning, urban development / infrastructure, R&D, finance, logistics, sustainability and resource planning, trade and interconnectedness.

²³ <http://www.karriere.de/karriere/im-mittelstand-wird-weiter-kraeftig-eingestellt-6861/2/>

²⁴ http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/Singapur_node.html

²⁵ https://ec.europa.eu/research/iscp/pdf/publications/singapore_eu_en.pdf

2. Supporting neighbouring ASEAN countries in adopting certain concepts from Singapore can help to have a faster and sustainable development overall. Singapore needs to be willing to support its neighbours though.
3. Setting up an Eximbank for export financing might strengthen Singapore's role as a financial, manufacturing and trading hub. Possible partner could be e.g. the Hermes insurance for export finance.
4. Small- and medium-sized enterprises (SMEs)²⁶ operating in the country need to aim for higher internationalisation. German Mittelstand²⁷ companies operating in Singapore and the neighboring ASEAN countries do contribute to a more diverse enterprise culture and can transfer know-how in co-operation with local companies and the German chambers.
5. Singapore can react by increasing its presence and investing more into the ASEAN countries. The urbanization and industrialization of emerging states like Vietnam, Myanmar and Indonesia continue to drive growth for essential solutions and infrastructure. Enabling large-scale business possibilities for Singaporean companies.
6. Continue to prepare work force for anticipated changes in manufacturing, and more international work environment of Singapore. Partnering with German education institutions can bring in proven aspects of target oriented collaboration between education and business.

Singaporean-German Chamber of Industry of Commerce (SGC)
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²⁶ Definition of SMEs according to SPRING (2011): Annual Sales turnover of not more than S\$100 million or Employment size of not more than 200 workers

²⁷ <http://www.economist.com/news/business/21606834-many-countries-want-mittelstand-germanys-it-not-so-easy-copy-german-lessons>

V. Annex

Diverse markets: *Doing Business 2015*

(Out of 189 countries)

Country	2015 ranking	2014 ranking
Singapore	1	1
Malaysia	18	20
Thailand	26	28
Philippines	95	86
Vietnam	78	72
Brunei Darussalam	101	98
Indonesia	114	117
Cambodia	135	134
Laos	148	155
Myanmar	177	178
Benchmark countries		
China	90	93
India	142	140

Source: World Bank 2015, 2014

Table 1: Diverse Markets: Doing Business 2015

Corruption perceptions index 2013-14

(Out of 175 countries in 2013; 174 in 2014)

Country	2014 ranking	2013 ranking
Singapore	7	5
Brunei Darussalam	-	38
Malaysia	50	53
Thailand	85	102
Philippines	85	94
Indonesia	107	114
Vietnam	119	116
Cambodia	156	160
Laos	145	140
Myanmar	156	157
Benchmark countries		
India	85	94
China	100	80

Source: Transparency International

Table 2: Corruption Perception Index 2013-2014

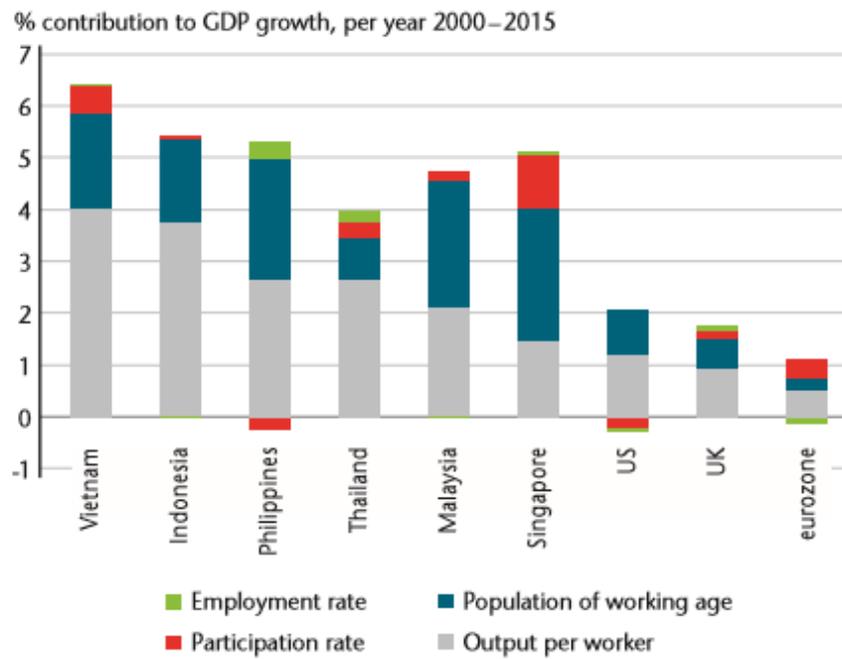


Figure 1: Contribution to GDP Growth, Source: Oxford Economics

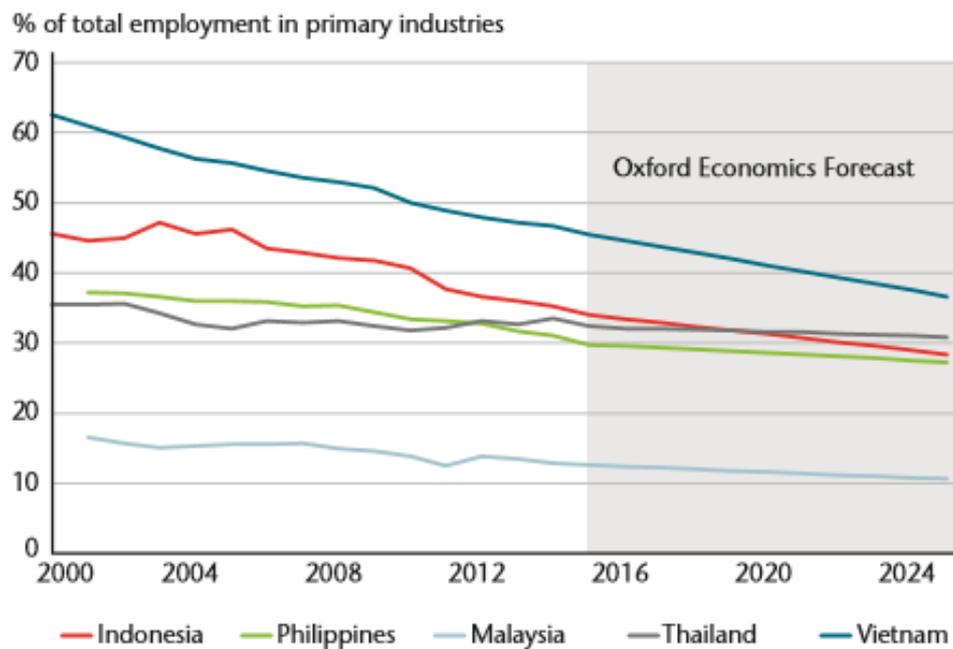


Figure 2: Agricultural Sector Role in the Economy, Source: Oxford Economics

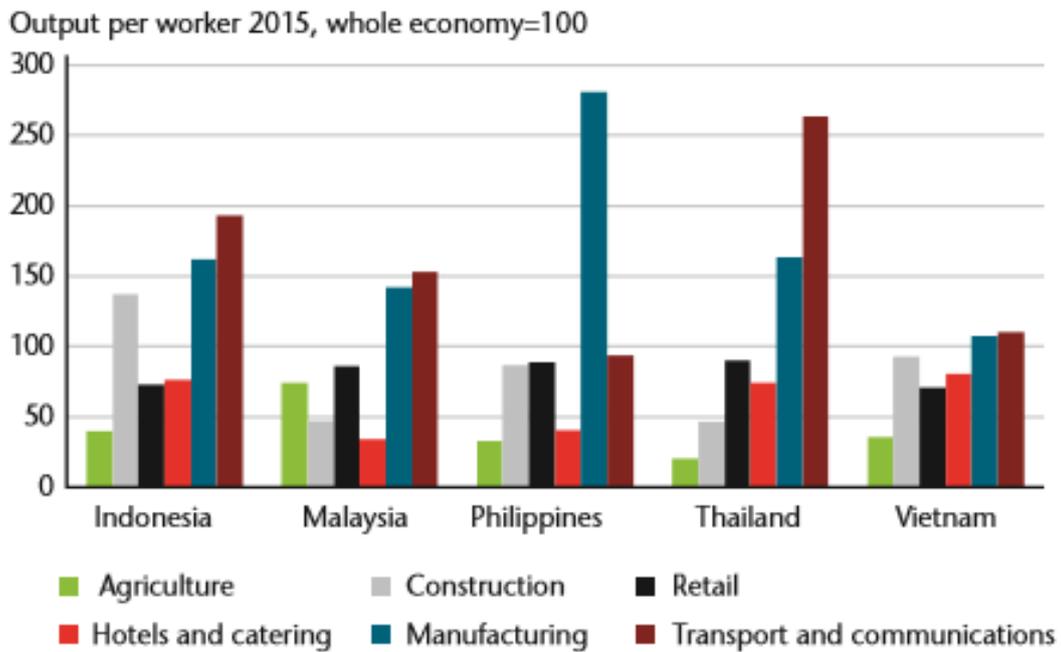


Figure 3: Sectoral Productivity vs Agriculture, Source: Oxford Economics



Figure 4: Contribution of Sectoral Shift to Productivity, Source: Oxford Economics

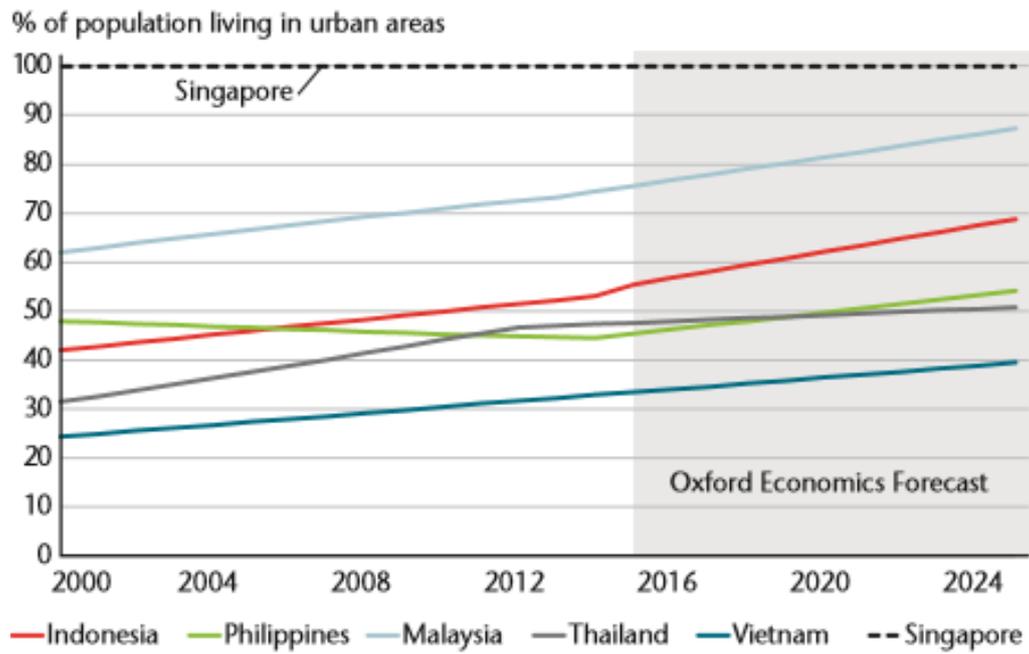


Figure 5: Urbanization Rate, Source: Oxford Economics

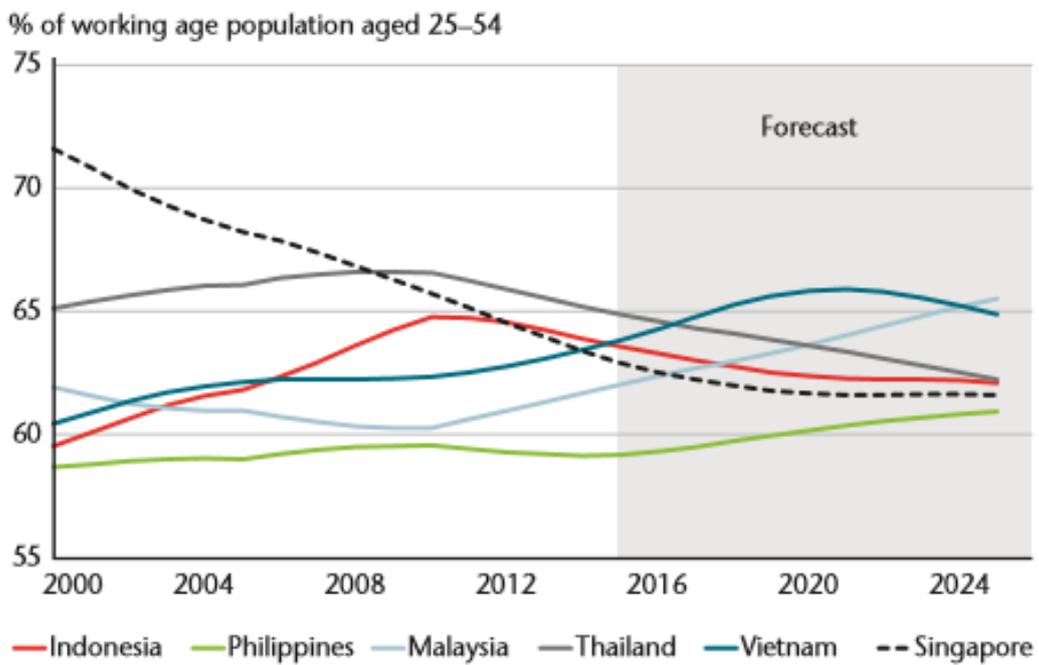


Figure 6: Prime Working-Age Population, Source: Oxford Economics

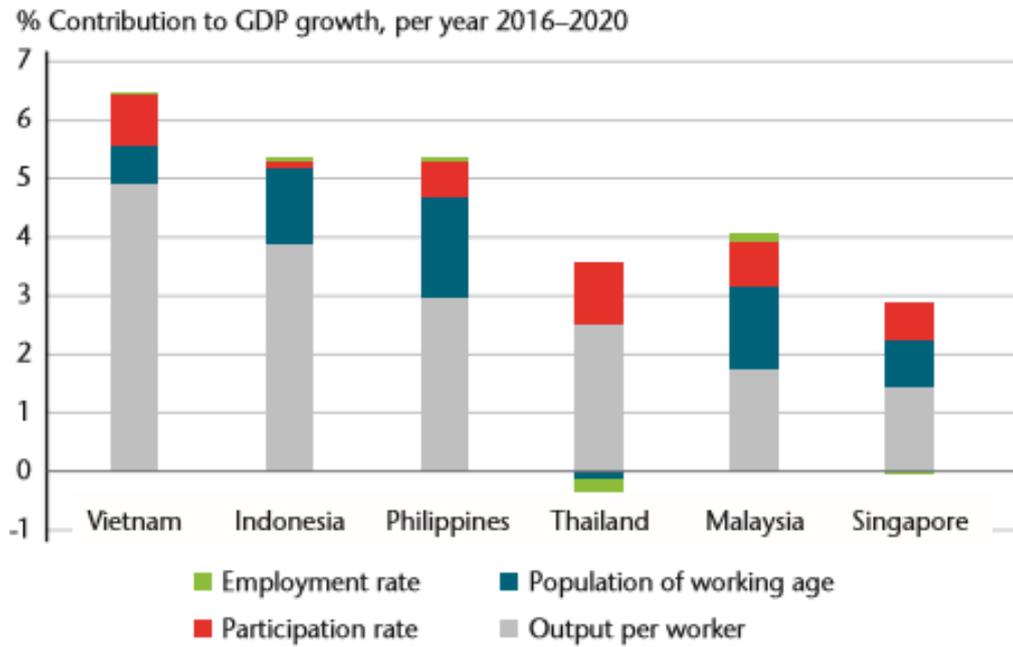


Figure 7: Contributions to ASEAN GDP Growth, Source: Oxford Economics

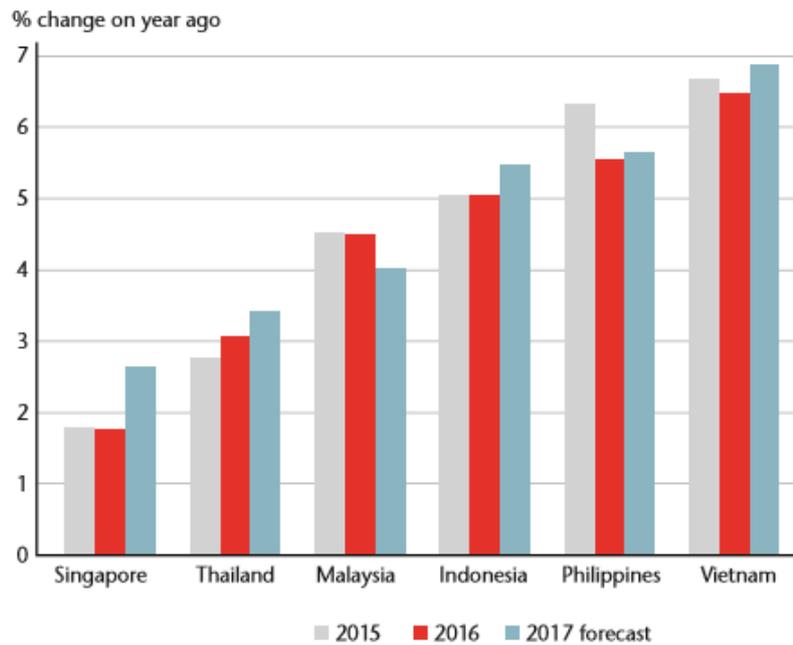


Figure 8: ASEAN GDP Growth, Source: Oxford Economics