III. TRADE-RELATED ASPECTS OF INVESTMENT POLICIES

(1) Foreign Direct Investment: General Policy Direction

1. Singapore's rapid economic growth has been to a large extent due to massive foreign direct investment (FDI) inflow.[1] In 1993, foreign-owned companies accounted for about 85 per cent of the direct exports of the manufacturing sector. Initially, the majority of investments were in petroleum refining and lower value-added electronics activities. As Singapore upgraded to higher value-added industries, investment in electronics, machinery, computers, pharmaceuticals and printing expanded.[2]

2. Singapore's policy to encourage FDI involves both tax and non-tax incentives for foreign and local firms alike. This policy complements Singapore's liberal exchange régime, with no exchange controls or formalities on payments or capital transfers in any foreign currency or to any country. In addition, political stability, highly efficient transportation and telecommunication systems, a well-developed infrastructure and an enthusiastic workforce have combined to make Singapore a good location for foreign investment.

3. Singaporean law makes no distinction between domestic investment and foreign investment except for limitation on foreign ownership in telecommunications, financial services and the national airline in particular. Foreign ownership of certain residential property requires approval from the Controller of Residential Property under the Ministry of Law. There can be no foreign ownership of public utility services, arms and ammunition.

4. Pioneer status tax incentives are administered by the Economic Development Board. According to the authorities, there are no specific obligations such as local content, export performance or technology transfer requirements attached to these incentives.

5. In 1993, the Government set up a Committee to Promote Enterprise Overseas. The Committee recommended that GLCs and statutory boards should partner private-sector companies in overseas ventures forming joint-ventures and consortia. The Committee also suggested that the Economic Development Board, the Trade Development Board and the Ministry of Foreign Affairs (MFA) offices overseas should work closely in helping Singapore businessmen explore business opportunities in the region. These efforts include providing general and commercial information, identification of business opportunities, facilitating access to government officials in host countries, and establishing a network of Investment Guarantee Agreements.[3]

6. Faced with rising labour costs and shortage of land, Singapore pursues a "regionalization" policy and encourages companies to shift labour-intensive operations offshore. The Government formed the Regionalisation Steering Committee (RSC) to spearhead Singapore's Regionalization programme (Box III.1). Target markets for Singapore's regionalization thrust include ASEAN, India, China and Myanmar.

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[1] The ratio of FDI to GDP is substantially higher than other rapidly industrializing countries (Table AIII.1).

[2] Ministry of Trade and Industry (1994), p.93.

[3] Tan Chwee Huat, pp. 24-26.

Box III.1: Regionalisation Steering Committee (RSC)

The Ministry of Trade and Industry (MTI) spearheads Singapore's regionalization programme. To this end, MTI and its statutory boards have actively worked towards establishing a framework for economic co-operation with target countries, in order to facilitate the private sector's regionalization efforts.

Formed in March 1994, the Regionalisation Steering Committee (RSC) is chaired by the Permanent Secretary of MTI, with the heads of the Economic Development Board, the Trade Development Board, the Singapore Tourist Promotion Board and the Jurong Town Corporation as members. The RSC meets on a bi-monthly basis.

The terms of reference of the RSC are: to co-ordinate the work plans and follow-up actions of the various agencies in their drive to promote regionalization; to provide inputs and feedback on the prospects and opportunities for regionalization; to give constant updates on the progress of Singapore's flagship projects abroad; and for MTI to pass on political thinking and instructions to agencies in a systematic and co-ordinated manner.

Source: Government of Singapore.

(2) Legal Framework of Foreign Direct Investment

7. There is no overall law governing FDI. However, the Economic Expansion Incentives (Relief from Income Tax) Act 1995 specifies deductions. Anyone who wishes to do business in Singapore, whether domestic or foreign, must register with the Registry of Companies and Businesses (RCB) under the Business Registration Act or the Companies Act.

8. The RCB, under the Ministry of Finance, is responsible for the administration of the Companies Act and the Business Registration Act, which regulate the setting-up and operation of companies and businesses. Anyone who intends to operate a business must first register a firm or incorporate a company. Professionals like accountants, medical doctors and lawyers need not register with the RCB as they are regulated by their respective professional bodies.[4]

9. Individuals and companies registering a business firm as either a sole proprietorship or a partnership need not be Singaporean nor incorporated in Singapore. A foreign firm which is not registered in Singapore must register under the Companies Act before it can register a business firm. Every business firm is required to appoint a manager who will be responsible for the management of the business. However, the manager must be a Singaporean, Permanent Resident or Employment Pass holder. To form a company, there must be two directors, one of whom must also be a Singaporean, Permanent Resident or Employment Pass holder.[5]

10. Branches of foreign companies are registered, not incorporated, under the Companies Act, Cap. 50. In most cases, the RCB takes about nine working days to register a foreign company and issue the Certificate of Registration.[6] Foreign companies registered in Singapore do not have automatic rights to station expatriate staff at the branches in Singapore. All applications to station expatriate

[4] Registry of Companies and Businesses, (1993).

[5] Registry of Companies and Businesses (1993), p. 12-13 and p. 38.

[6] Registry of Companies and Businesses (1993), pp. 30-31.

staff must be referred for consideration to the Controller of Immigration under the Ministry of Home Affairs.

11. There are some limitations on foreigners' establishment in the financial service industries (see also Chapter V). There is no restriction on foreign ownership of foreign banks. Foreign equity is limited to 40 per cent of locally incorporated banks. Foreign shareholding in a finance company has, since September 1971, been limited to 20 per cent of the finance company's share capital. Foreign ownership of Stock Exchange of Singapore (SES) member securities companies is generally limited to 49 per cent, with the possibility of increasing the stake to 70 per cent after three years of successful operations. However, such companies can be 100 per cent foreign owned if they do not deal with residents in transactions of less than S$5 million each in SES securities. Inward portfolio investment is encouraged by the Government, and there are generally no restrictions on non-residents' purchase or sale of stocks, shares, bonds or other capital or money market instruments.

12. Foreign insurance companies need approval (licensing) from the Monetary Authority of Singapore. There is no restriction on foreign ownership of foreign insurance companies. In the case of locally owned direct insurance companies, foreign participation is limited to a minority controlling equity stake unless exceptional circumstances justify a foreign party taking a majority equity stake, for instance, if the locally owned direct insurance company is in serious financial difficulty.

13. Foreign ownership is restricted for certain basic telecommunication services (Chapter V(4)(iii)). For value-added-network (VAN) services, there is no restriction on foreign equity participation. For telecommunication services in which competition has been introduced, the Telecommunication Authority of Singapore limits foreign equity participation to 49 per cent.

14. In industries other than financial and telecommunication services, restrictions on foreigners' access exist for the purposes of public safety, pollution control and industrial relations. A special licence is required from the Government (Registrar of Manufacturers) to manufacture the following goods: (a) under the First Schedule of the Control of Manufacture Act, certain iron and steel products, beer and stout and firecrackers, and (b) under the Second Schedule of the Control of Manufacture Act, cigarettes and matches. Government approval is required for foreigners investing in any property other than land and buildings for industrial and commercial purposes and residential housing units in approved buildings. Foreign equity holding in newspapers is limited to 10 per cent. There can be no foreign ownership of electricity, water supplies, gas, airport services, port services, arms and ammunition.

15. Except for ownership limits in some sectors described above, foreign firms are eligible for incentives on equal footing with local firms.

16. There are no restrictions on outward foreign direct investment.

17. According to the authorities, Singapore does not administer any Trade Related Investment Measures (TRIM), and only minimum changes are expected as a consequence of the Uruguay Round.

18. Singapore has signed bilateral investment protection agreements with the following countries: Belgium-Luxembourg, Canada, China, the Czech Republic, France, Germany, Mongolia, Netherlands, Pakistan, Poland, Riau Archipelago, Sri Lanka, Switzerland, the United Kingdom, the United States, and VietNam. Under these agreements, investments by nationals or companies of both contracting parties in each other's respective country are protected for a specified period, usually 15 years, against

war and non-commercial risks of expropriation and nationalization. Most of these contain tax-sparing clauses to ensure that the benefit of Singapore's investment incentives remain with the investor. [7]

19. Singapore has concluded double taxation treaties with a number of countries: Malaysia, Japan, United Kingdom, Australia, Belgium, Germany, France, Thailand, Switzerland, Denmark, Sweden, Norway, Israel, China, Netherlands, New Zealand, Canada, Italy, Philippines, Sri Lanka, the Republic of Korea, Bangladesh, Finland, Chinese Taipei, India, Pakistan, Poland, and VietNam. The Government of Singapore has also ratified limited tax treaties with Saudi Arabia regarding air transportation, and Chile regarding shipping.[8] Although the agreements vary in their content, most include mutual grant of most-favoured-nation status and investment guarantee provisions.

(3) Trends in Inward and Outward Foreign Direct Investment

20. In recent years, foreign direct investment made up approximately 80 per cent of total investment in manufacturing. For instance, in 1994, out of the total investment of S$5.8 billion in manufacturing, foreign direct investment accounted for 79 per cent, i.e., S$4.3 billion.

21. Most of the FDI originated in the United States, Japan, and the European Union. In 1994, the shares of the United States, Japan, and the European Union amounted to 57, 21 and 21 per cent of manufacturing investment. Since 1989, share of investment from the United States has increased, while investment from Japan and the European Union has decreased (Table III.1).

Table III.1
Net foreign direct investment commitments in manufacturing into Singapore, by origin, 1989-1994
(S$ m1llion)

Country	1989	1990	1991	1992	1993	1994
United States	520.2	1,054.8	969.2	1,201.4	1,452.2	2,451.7
Japan	541.2	708.2	713.2	858.0	778.4	913.8
Europe	544.2	435.3	684.2	618.7	881.9	907.0
EU	525.4	395.5	615.9	536.1	795.7	893.0
non-EU	18.8	39.8	68.3	82.6	86.2	14.0
Others	19.8	19.6	94.5	55.0	63.5	54.9
Foreign investment	1,625.4	2,217.9	2,461.1	2,733.0	3,177.1	4,327.4
Local investment	333.3	269.5	472.9	748.0	745.5	1,437.2
Total investment	1,958.7	2,487.4	2,934.0	3,481.0	3,922.6	5,764.6

Source: Department of Statistics Singapore, Yearbook of Statistics 1994.

22. In 1994, investment in the electrical/electronic machinery, industrial chemicals and petroleum sectors accounted for 68 per cent of total net investment commitments in manufacturing. In the same year, the shares of investment in industrial chemicals and petroleum increased from 11 and 15 per cent to 21 and 20 per cent, respectively. The share of investment in transport equipment increased gradually from 3 per cent in 1989 to 10 per cent in 1994 (Table III.2).

[7] Dun & Bradstreet (1994/95), p. 1276.

[8] Dun & Bradstreet (1994/95), p. 1276; and the information provided by the Government of Singapore.

Table III.2
Net investment commitments in manufacturing by industry, 1989-1994
(Gross fixed assets at end-year, unit: S$ million)

Industry	1989	1990	1991	1992	1993	1994
Electrical/electronic machinery and supply	776.9	1,197.1	1,260.4	1,275.2	1,321.0	1,542.2
Industrial chemicals	213.5	265.9	322.0	294.3	783.5	1,192.8
Petroleum and petroleum products	290.0	381.0	99.5	454.2	84.6	1,180.3
Transport equipment	50.8	114.1	124.3	167.1	341.2	555.4
Fabricated metal products	101.0	103.1	127.1	152.5	147.9	324.5
(non-electrical) Machinery	131.0	186.2	376.5	343.7	330.8	276.5
Paper products and printing	93.8	76.2	109.4	89.5	92.2	268.4
Non-metallic mineral products	0.0	9.0	47.9	63.1	126.1	206.8
Other chemical products, except plastics	21.7	35.0	243.4	248.4	340.4	113.9
Food, beverages and tobacco	34.1	43.8	39.8	76.5	92.9	36.3
Plastics products	37.8	8.9	87.2	110.8	48.3	26.9
Precision equipment and optical goods	93.0	21.1	34.0	138.3	113.7	19.6
Basic metal industries	86.6	0.0	2.8	34.3	68.4	6.6
Leather and rubber products	0.0	10.0	4.4	2.8	1.7	2.6
Wood products and furniture	2.1	8.6	2.8	4.6	24.7	0.0
Garment and footwear	0.4	0.2	5.7	10.0	2.4	0.0
Textile	2.0	2.8	11.2	5.2	0.0	0.0
Others	24.1	24.3	35.7	10.5	1.8	11.9
Total	1,958.7	2,487.4	2,934.0	3,481.0	3,922.6	5,764.6

Source: Department of Statistics Singapore, Yearbook of Statistics 1994.

23. Outward investment by Singapore companies (excluding financial institutions) was relatively low in the 1980s. At the end of 1981, the stock of Singapore's outward direct investment was S$1.7 billion. Over the recent years, FDI flows out of Singapore have increased rapidly in parallel with the "Regionalisation" policy. In 1993, it amounted to S$21.2 billion. Almost half of Singapore's investments were in ASEAN and the other East Asian countries and were largely in the manufacturing, commerce and real estate sectors. The United States and Europe together accounted for about one-sixth of its investments, which was largely in financial services (Table III.3). In 1993, FDI flows into Malaysia were 22 per cent of the total.[9]

[9]Ministry of Trade and Industry (1994), p. 94.

Table III.3
Foreign direct investment flows out of Singapore, by country, 1990-1993
(S$ million)

Country	1990	1991	1992	1993
Asia	7,013	7,402	9,209	11,480
ASEAN	3,567	3,996	4,897	5,934
Hong Kong	2,266	2,369	3,051	4,026
China	240	220	283	444
Chinese Taipei	495	287	350	355
Japan	52	74	76	109
Others	394	457	554	613
United States	690	1,304	1,590	1,755
Europe	1,095	1,398	1,480	1,550
Australia	531	570	637	374
Others	4,293	4,511	4,826	6,081
Total	13,622	15,184	17,741	21,240

Source: Government of Singapore.

24. More than half of Singapore's outward FDI has been concentrated in financial services. However, in recent years, the FDI outflow in manufacturing has increased (Table III.4). In 1993, the share of financial services and manufacturing in Singapore's FDI outflow amounted to 55 per cent and 22 per cent of the total, respectively.

Table III.4
Foreign direct investment flows from Singapore, by industry, 1990-1993
(S$ million)

Industry	1990	1991	1992	1993
Manufacturing	2,395	2,901	3,760	4,613
Construction	70	72	130	199
Commerce	1,504	1,606	1,967	2,068
Transport and storage	347	245	290	322
Financial services	7,301	8,648	9,753	11,723
Real estate	1,213	859	963	1,295
Business services	512	605	595	767
Others	280	247	283	254
Total	13,622	15,184	17,741	21,240

Note: Figures include stocks of attributable reserves of overseas subsidiaries and associates.

Source: Government of Singapore.

25. Up to the end of 1994, more than S$500 million of Singapore investments had been made in the Growth Triangle of Indonesia, Malaysia and Singapore (Singapore-Johor-Riau), mainly Riau. The Singapore-Johor link has also been strengthened, with Singapore companies investing more than 1.5 billion Malaysian dollars in Johor.[10]

26. A significant focus of the "Regionalisation" policy is on China. The most ambitious project there is the establishment of an industrial township in the city of Suzhou in China. Signed in February 1994, the project is expected to attract US$20 billion in investment and house 600,000 people. Another comprehensive project is being established in Wuxi. More recently, attention has also been focused on India, where Singapore has helped to build the S$250 million information technology park in Bangalore.[11]

[10] Economic Development Board (1995), p. 8.

[11] Asian Business (1994), p. 32.