



OVERVIEW OF SINGAPORE'S BUSINESS SERVICES SECTOR

ABSTRACT

The business services sector contributes a sizeable proportion of the economy and employs a large number of skilled workers and professionals. Despite the apparent dissimilarities of its diverse segments, this paper finds that they are largely linked to wholesale & retail trades, manufacturing and financial services. The composition of the sector has changed in the past decade with the rise of knowledge-intensive business services (KIBS). The trend of internationalisation has not been confined to the KIBS, but has also permeated traditional segments such as real estate. This has helped to insulate companies when domestic market conditions have been soft.

INTRODUCTION

The business services sector has grown in importance over the last decade. As the sector is made up of diverse industries, its components have different drivers. This paper examines the role business services play in the economy, the drivers behind the various segments as well as some general trends in the sector.

KEY CHARACTERISTICS

Diverse group of industries...

The business services sector is made up of several diverse industries such as real estate, legal activities, accounting activities, business and management consultancy activities, architectural and engineering activities, business representative offices and other business services. The various segments and their respective growth are shown in [Exhibit 1](#). Over the past few years from 2005 to 2007, all segments showed stronger growth compared to the past decade, reflecting Singapore's development as a global business hub. Certain segments, such as business representative offices and other business services, have also outperformed the economy's average growth of 7.9 per cent.

The views expressed in this paper are solely those of the author and do not necessarily reflect those of the Ministry of Trade and Industry or the Government of Singapore.

Contributed by:

Kuan Ming Leong

Economist
Economics & Strategy Division
Ministry of Trade and Industry

BREAKDOWN OF BUSINESS SERVICES

[Exhibit 1]

Activity	Description	Nominal VA Share of Business Services % (2007)	CAGR (in Real Terms), % p.a.	
			Longer-Term Trend (1997–2007)	Shorter-Term Trend (2005–2007)
Real Estate	Real estate development; letting and operating own real estate; operators of service apartments; real estate agents, appraisers; valuers; establishments engaged in managing real estate	46.4	2.5	6.9
Architectural & Engineering Activities	Consulting engineering, architectural services on a fee or contract basis	9.0	4.0	6.2
Business Representative Offices	Operational headquarters and head/regional offices of enterprises	8.8	4.6	8.4
Business & Management Consultancy Activities	Establishments providing advisory and consultancy services on business management, human resource and public relations	7.6	3.8	7.0
Legal Activities	Activities of advocates, barristers, solicitors, patent attorneys and notaries public	4.1	0.0	6.8
Accounting Activities	Establishments providing accounting, auditing, taxation advisory and book-keeping	3.4	3.4	6.5
Other Business Services	R&D, consultancy, advertising, exhibition fair & convention activities and other ancillary business services	20.8	7.5	8.7

Source: Singapore Department of Statistics

The largest segment is real estate services, accounting for 46 per cent of the business services sector in 2007. The other segments are much smaller. This is reflected in the dominance of the real estate firms among the top firms in the sector¹.

Non-real estate segments grew rapidly...

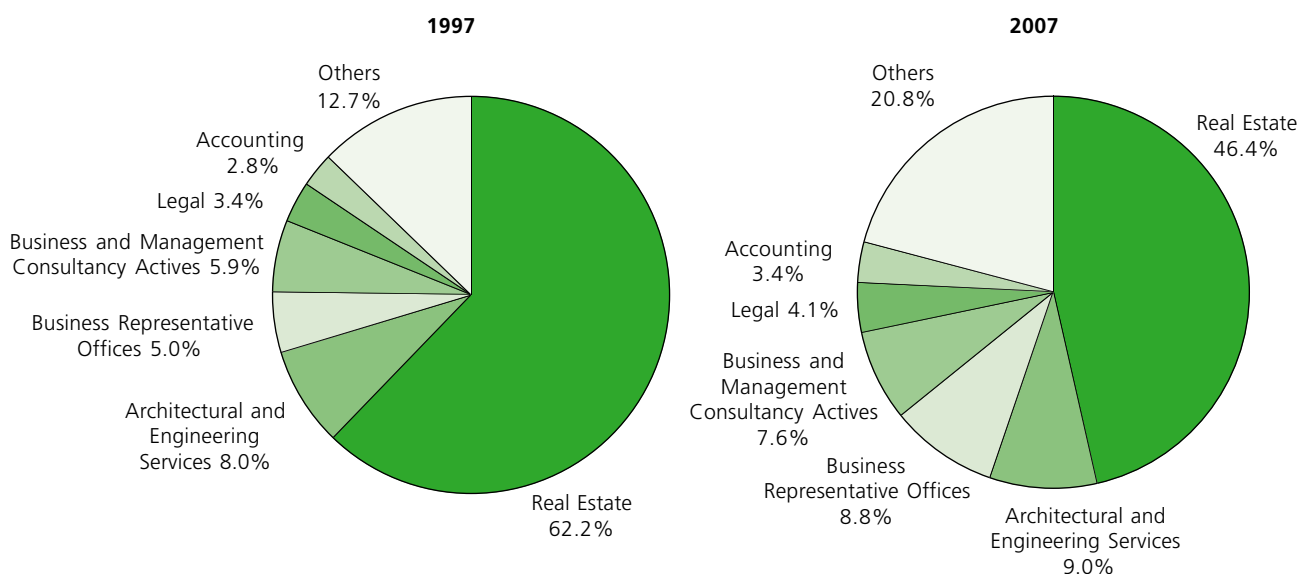
Although real estate is still the largest portion of the sector, its share has declined from 62 per cent in 1997 to 46 per cent in 2007 (Exhibit 2). Over the same period, non-real estate segments have grown rapidly. Business representative offices and the professional services have increased their share in the sector. Other business services like R&D and MICE (Meetings, Incentives, Conventions & Exhibitions) activities have also increased in relative importance.

Business representative offices and professional services have grown in relative importance over the past decade...

¹ The top 10 business services firms in DP Information Group's Singapore 1000 are real estate companies.

INCREASING SHARE OF NON-REAL ESTATE SEGMENTS

[Exhibit 2]



The high growth segments in recent years include business representative offices and other business services. Legal services also saw growth accelerate significantly above the past 10-year trend. Although segments such as real estate, and architectural and engineering activities have seen below-average growth in recent years, this is likely to change with the continued resurgence of the property market and construction sector.

Key drivers of business services...

The business services sector is a key supporting sector of the economy, deriving its demand largely from the intermediate demand by other sectors. Output of the business services sector is largely consumed by other industries rather than by final consumers (like households and government) or as investments or exports. Intermediate demand accounts for 64 per cent of the total demand, higher than those of other key sectors. For example, the shares of manufacturing and wholesale & retail trade are lower at 12 per cent² and 23 per cent while supporting services like communications are higher at 72 per cent. Hence, the growth of this sector generally moves in line with that of the overall economy. Its share of Singapore's real GDP has been relatively stable at around 12 per cent in the last 25 years.

² Output of the manufacturing sector is largely exported as final demand although the output of some smaller segments like plastic and paper products are largely purchased by industries.

The key driver of intermediate demand for business services comes largely from wholesale & retail trades, manufacturing and financial services³ (Exhibit 3). For example, out of every \$1 of intermediate output produced by the real estate segment, 29 cents is sold to wholesale & retail trades, 13 cents is sold to manufacturing, and 8 cents is sold to the financial services sector. Real estate supports these sectors through the provision of warehousing, retail and office space for shopping malls, and space for banks and financial institutions.

Business services are mainly driven by wholesale & retail trade, manufacturing and financial services...

WHOLESALE & RETAIL TRADES, MANUFACTURING AND FINANCIAL SERVICES ARE MAJOR PURCHASING INDUSTRIES OF THE BUSINESS SERVICES SECTOR

[Exhibit 3]

Producing Industry	Main Purchasing Industry	Share of Intermediate Output Sold to Purchasing Industry (%)
1. Real Estate	1. Wholesale & Retail Trades 2. Manufacturing 3. Food & Beverage Services 4. Other Services 5. Financial Services	28.6 13.1 9.4 8.1 7.9
2. Legal Activities	1. Wholesale & Retail Trades 2. Manufacturing 3. Financial Services 4. Real Estate 5. Government Services	19.9 17.9 12.6 10.3 9.7
3. Accounting Activities	1. Wholesale & Retail Trades 2. Manufacturing 3. Real Estate 4. Financial Services 5. Transport & Storage	22.2 14.2 13.7 13.4 6.2
4. Architectural & Engineering Activities	1. Construction 2. Architectural & Engineering Activities 3. Real Estate 4. Manufacturing 5. Government Services	35.6 16.7 11.1 14.6 4.5
5. Management Consultancy Activities	1. Wholesale & Retail 2. Manufacturing 3. Real Estate 4. Other Services 5. Financial Services	16.3 11.5 8.9 8.1 7.9

Source: Department of Statistics, Input-Output Tables 2000

In the case of professional services such as legal, accounting and management consultancy services, the largest corporate consumers are generally wholesale & retail trades, manufacturing and financial services. For architectural & engineering services, the construction sector is the largest purchaser.

³ In turn, wholesale & retail trades and financial services derive significant demand from manufacturing activity.

Vital source of well-paying jobs for 229,000...

This sector is a source of well paying jobs for 12 per cent of the resident workforce in 2007. Employment of residents in the sector increased by 4.5 per cent per annum over 1990–2007, compared to the 2.9 per cent per annum increase for services in general. The specialised nature of work is reflected in the healthy average annual remuneration of \$48,000. This ranges from \$36,000 in real estate to \$139,000 for highly knowledge-intensive jobs in the business representative office ([Exhibit 4](#)).

HIGH REMUNERATION AND EMPLOYMENT OF BUSINESS SERVICES SEGMENTS

[Exhibit 4]

Activity	Employment (Number)		Average Remuneration (Dollars)	
	1995	2005	1995	2005
Business Representative Office	7,644	12,754	95,830	139,488
Research & Development	1,437	7,064	49,643	74,286
Business & Management Consultancy Activities	14,177	21,485	52,278	69,872
Architectural & Engineering Activities	16,482	28,630	48,282	54,570
Legal Activities	7,220	9,338	39,601	59,987
Accounting Activities	7,200	8,690	35,587	52,824
Real Estate	37,338	40,564	34,091	35,680

Source: Singapore Department of Statistics

More knowledge-intensive...

The business services sector is quite knowledge-intensive, with many services segments relying heavily on professional knowledge and expertise. Examples of Knowledge Intensive Business Services (KIBS)⁴ include architectural & engineering services, legal services, and business and management consultancy activities.

In 2005, KIBS accounted for 44 per cent of the business services sector, up from 30 per cent in 1995. Between 1995 and 2005, KIBS value added (VA) grew annually by 8.4 per cent in nominal terms, higher than the 5.3 per cent increase in nominal GDP. This has been achieved with a steady average annual employment growth of 5.1 per cent ([Exhibit 5](#)).

⁴ The classification of KIBS is based on that used by the European Community (NACE Revision 1.1) and further refined by the "European Monitoring Centre on Change". It refers to the following services: Legal, Accounting, Business Representative Offices, Business & Management Consultancy, Research & Development, Architectural, Engineering, Industrial Design, Technical Testing and Analysis services.

KIBS demonstrated resilience during the turbulent years between 1997 and 2003, which saw the financial crisis, the bursting of the IT bubble and the SARS outbreak. During this period, nominal GDP and overall business services growth slowed to 2.2 per cent and 0.6 per cent per annum between 1997 and 2003. Nonetheless, VA of KIBS continued to grow strongly at 8.0 per cent. The average remuneration of KIBS is also significantly higher, at \$73,000, compared to \$48,000 for the overall business services sector. As the economy becomes more innovation-driven, KIBS will become more prominent in the business services sector.

Knowledge-intensive business services remained resilient during economic downturns...

STRONG GROWTH OF KIBS SEGMENTS DESPITE DOWNTURNS

[Exhibit 5]

	KIBS Establishments	KIBS Employment ('000)	KIBS Value Added (\$ Billion)	Overall Nominal GDP (\$ Billion)	Overall Business Services (\$ Billion)
1995	6,873	55.7	3.8	119.5	15.2
1997	8,089	60.4	4.9	142.3	19.2
1998	8,633	69.7	5.1	137.9	18.2
2003	10,885	84.6	7.8	162.3	19.9
2004	11,346	88.2	8.2	184.5	20.5
2005	11,447	91.9	8.6	199.4	22.2
Compound Annual Growth Rates (%)					
1995–2005	5.2	5.1	8.4	5.3	3.9
1997–2003	5.1	5.8	8.0	2.2	0.6

Source: Singapore Department of Statistics

Increasing trend of internationalisation...

Exports of business services have grown by more than 18 per cent per annum over the last 5 years, with accounting, legal and architectural services seeing the most rapid growth. Recent initiatives to develop Singapore's legal sector will lend further impetus to the development of these exportable services. The trend of internationalisation is not limited to these exportable services. Real estate companies are also seeing higher overseas turnover from their projects overseas (see [Box Item](#)). This has helped to buffer these companies when the domestic property market was soft.

CONCLUSION

The business services sector contributes about 12 per cent to the economy today and employs a large number of skilled workers and professionals. They play a supporting role to other sectors of the economy. Despite the apparent dissimilarities of the various business services segments, they are largely linked to wholesale & retail trades, manufacturing and financial services.

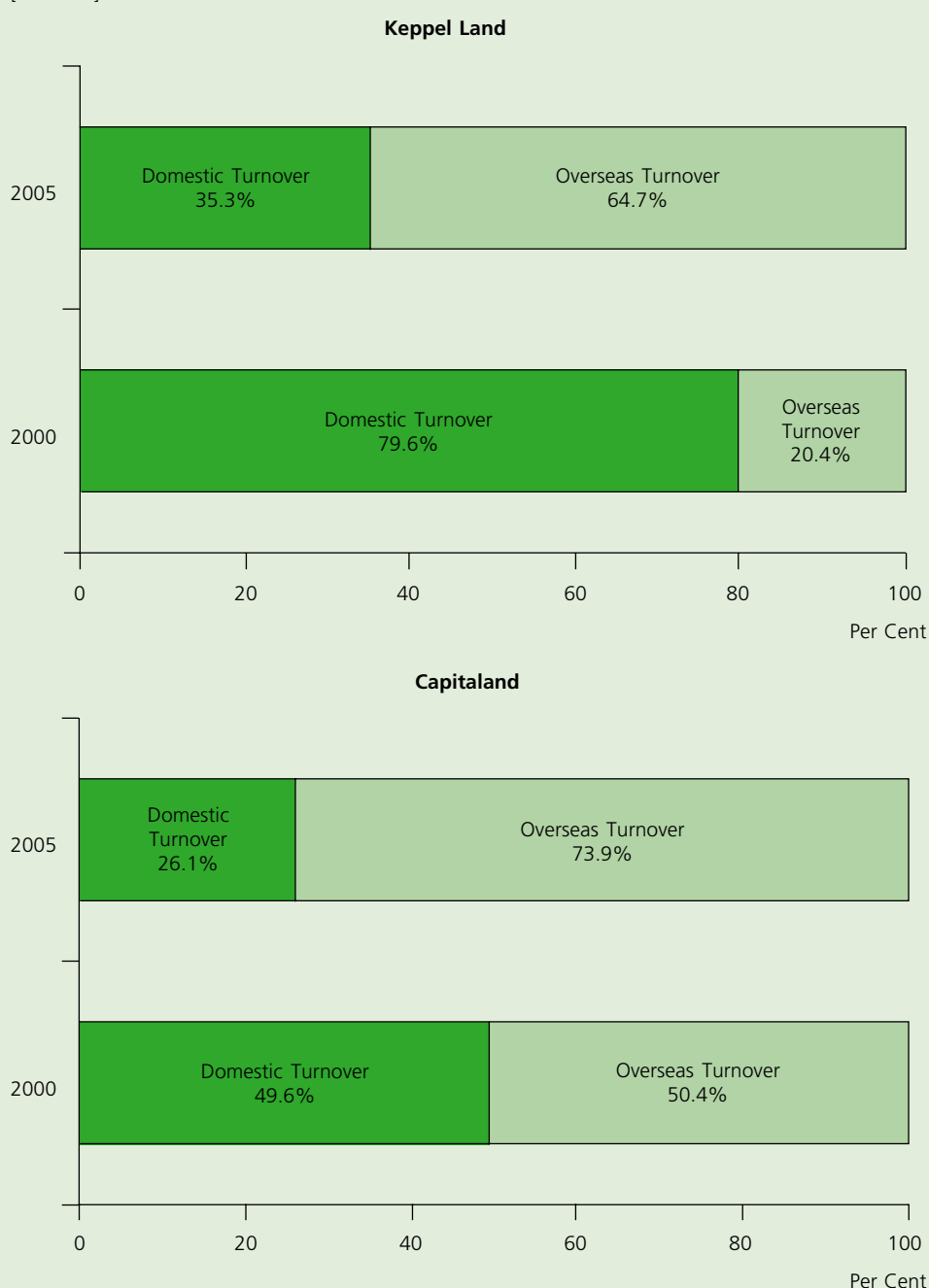
The composition of business services has changed rapidly. In recent years, the importance of traditional real estate activity as the primary driver of activity in the sector has fallen. Part of this is due to the strong growth of knowledge-intensive business services in the last decade. Underpinned by strong export potential, KIBS have enjoyed healthy growth in exports. The trend of internationalisation is not confined to KIBS, but has also permeated traditional segments like real estate.

Box Item: Internationalisation buffered real estate companies from a soft domestic property market

Given Singapore's small domestic market, real estate companies have been investing overseas. Besides supplementing revenues, internationalisation also helped to insulate the companies when the domestic property market was soft. For example, between 2000 and 2005, the share of overseas revenue of two real estate companies (Keppel Land and CapitaLand) rose significantly compared to their share of domestic turnover ([Exhibit 6](#)). Although the share of domestic revenue would have increased along with the recent property market recovery, their investments overseas would still be an additional source of revenue growth.

INCREASING SHARE OF OVERSEAS TURNOVER

[Exhibit 6]



Source: Company Reports

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