

Box 8.3: Overview Of Singapore's Wholesale Trade Sector

Background

The wholesale trade sector is a major component of Singapore's services sector and an important engine of growth for the Singapore economy. Foreign wholesale trade, in particular, is playing an increasingly dominant role, due to strong growth in our re-exports and offshore trade. Despite the short-term headwinds facing the sector arising from the global economic crisis, its longer term outlook remains positive as Singapore is moving into new offshore trading products and opening up new export markets.

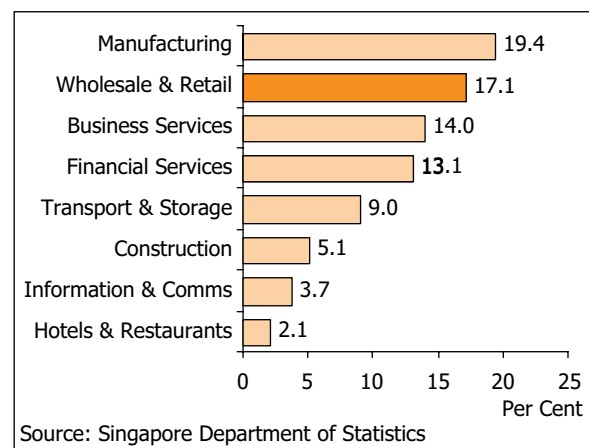
Introduction

Wholesale trade is a fast growing sector...

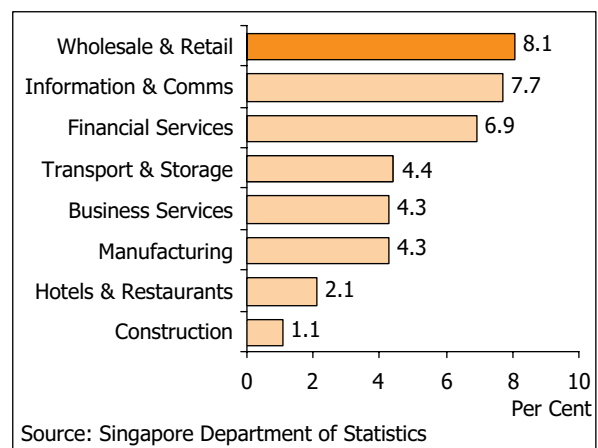
The wholesale and retail trade sector is the second largest sector in the economy, accounting for 17 per cent of Singapore's GDP in 2008. This is comparable to other export-oriented economies such as Hong Kong (25 per cent share of GDP) and Taiwan (19 per cent). It is also the fastest growing sector, with growth in real value-added averaging 8.1 per cent per annum since 2000 (Exhibit 1). Real value-added of wholesale trade, which accounted for 89 per cent of the wholesale and retail in 2008, grew by 8.7 per cent per annum from 2000-2008.

Exhibit 1: Wholesale and Retail Trade Sector is the Second Largest and Fastest Growing Sector

(A) Percentage Share of GDP in 2008



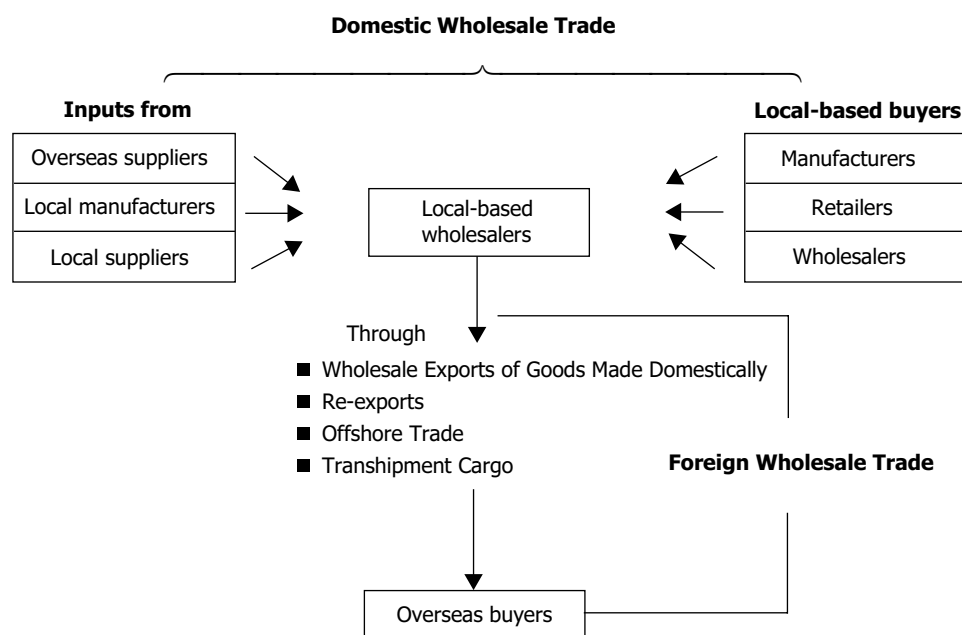
(B) Growth in Real Value-Added, 2000-2008



Wholesale trade is multi-distributive...

Wholesalers are those who import or purchase goods from manufacturers or other wholesale suppliers and sell to retailers, other wholesalers, manufacturers and overseas buyers.

While domestic wholesale trade records sales transactions to local buyers, foreign wholesale trade records sales transactions to overseas buyers. Foreign wholesale consists of domestic exports, re-exports, offshore trade and transshipment cargo ([Exhibit 2](#)).

Exhibit 2: Composition of Wholesale Trade Sector

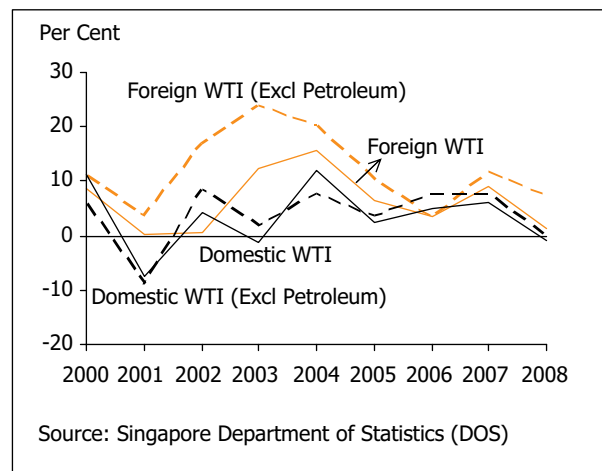
Source: Singapore Department of Statistics

Key Drivers And Trends**Faster growth in foreign wholesale trade...**

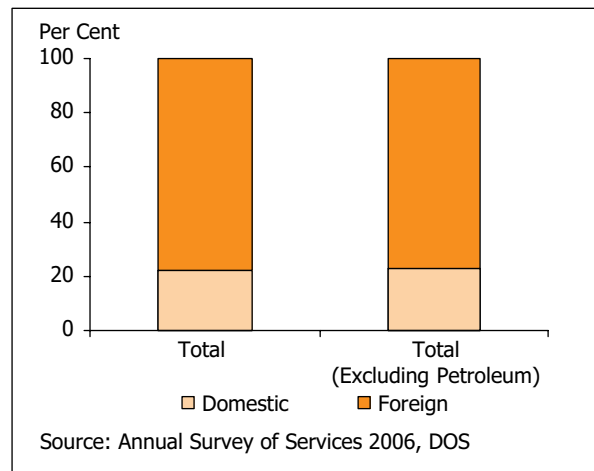
Singapore's foreign wholesale trade has enjoyed robust growth over the years due to strong growth in our re-exports and offshore trade. Sales volume of total foreign wholesale trade grew 6.0 per cent per annum over the period 2000-2008, more than twice the rate of growth in total domestic wholesale trade. Excluding petroleum, the sales volume of foreign wholesale trade grew faster, at 12 per cent per annum. This was four times the rate of growth of domestic wholesale trade. In terms of revenue, foreign wholesale trade accounted for more than three quarters of the wholesale trade sector's revenue in 2006 ([Exhibit 3](#)).

Exhibit 3: Faster Growth in Foreign Wholesale Trade

(A) Changes in Foreign and Domestic Wholesale Trade Index at Constant Prices



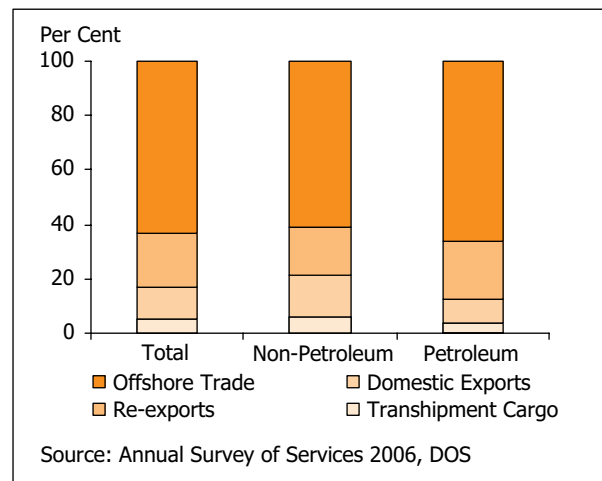
(B) Distribution of Wholesale Trade Revenue, Foreign vs Domestic, 2006



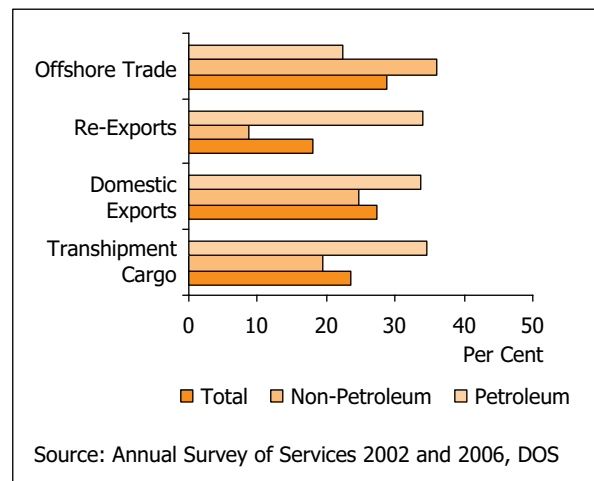
Foreign wholesale trade has benefited particularly from Singapore’s role as an international trading hub. Of the four components of foreign wholesale trade, offshore trade is the most dominant, contributing more than 60 per cent of foreign wholesale trade revenue for both petroleum and non-petroleum products. Offshore trade revenue also grew the fastest at 29 per cent per annum since 2002, with stronger growth seen in non-petroleum products ([Exhibit 4](#)).

Exhibit 4: Drivers of International Trade

(A) Percentage Share of Foreign Wholesale Trade Revenue, 2006



(B) Growth in Foreign Wholesale Trade Revenue, 2002-2006



Rising importance of computers & telecommunications, petroleum & petroleum products and chemicals & chemical products ...

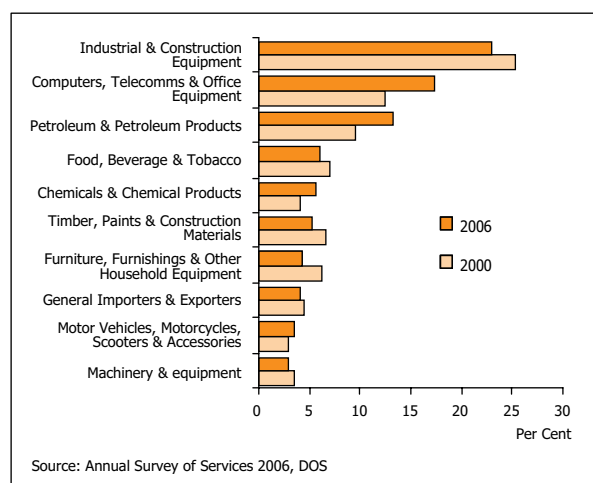
In terms of business activities, wholesale trade in industrial and construction equipment accounted for the largest share of the wholesale trade sector’s value-added, at 23 per cent in 2006. However, wholesale trade in computers and telecommunications, petroleum and petroleum products and chemicals and chemical products has become increasingly important, with the fastest CAGR of nearly 20 per cent since 2000 ([Exhibit 5](#)).

The changing mix of wholesale trade activities reflects changes in the structure of our economy as well as our growing importance as an offshore trading centre and a distribution centre. For example, the growth in the wholesaling of computers and telecommunications products over the 2000-2006 period in part reflects the growth in high value-added electronics manufacturing industries such as semiconductors and disk media. More importantly, it is also attributable to Singapore's greater role as a regional and global electronics distribution hub. Given our strong connectivity and logistics capabilities, major global electronics companies, including Seagate, Texas Instruments, Qualcomm and Infineon, have established global or regional distribution centres here.

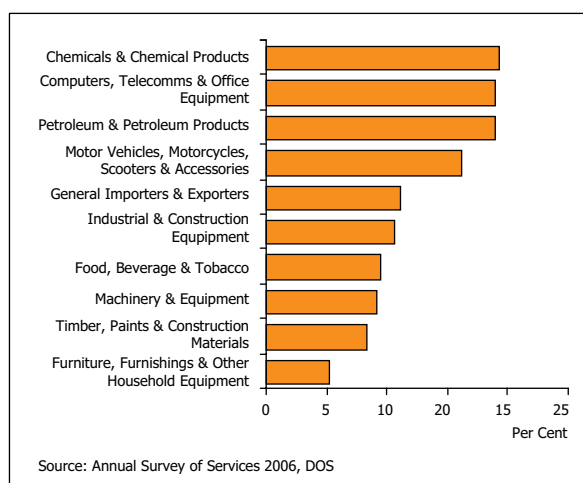
On the other hand, the greater value-added contribution from the wholesale trade of petroleum and petroleum products seen in recent years reflects Singapore's status as one of the world's largest oil trading centres. Under its Global Trader Programme (GTP), International Enterprise (IE) Singapore has attracted seven of the world's top ten integrated energy companies to locate their Asian trading headquarters in Singapore. Similarly, the wholesale trade of chemicals and chemical products grew in tandem with Singapore's expanding role in offshore chemicals trading, in addition to the growth of the chemicals manufacturing industry in Singapore.

Exhibit 5: Top Ten Business Activities of Wholesale Trade

(A) Percentage Share of Value-Added



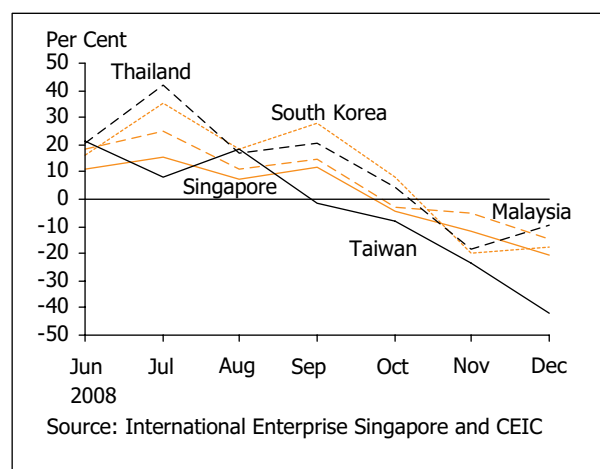
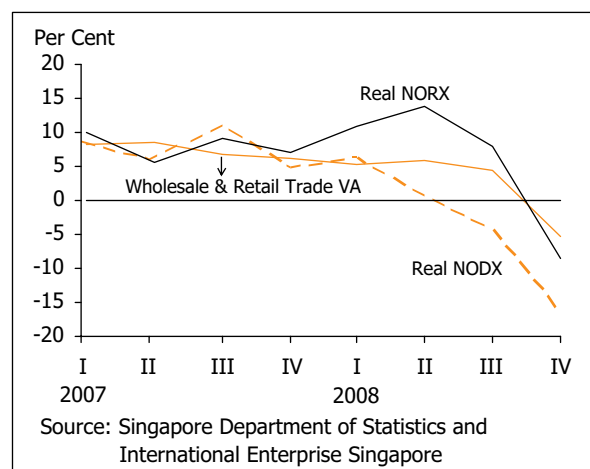
(B) Growth in Wholesale Trade Value-Added, 2000-2006



Outlook for Wholesale Trade

Global financial crisis has affected wholesale trade in short-term...

The global economic crisis has hit exporters and importers around the world in two main ways. First, global demand has dropped, due to collapsing consumer sentiments not just in the developed economies, but also in emerging economies such as China. Second, trade financing has dried up. For example, the World Trade Organisation estimated that limited liquidity in global credit markets created a US\$25 billion deficit in the supply of trade financing in November 2008. Consequently, exports of open economies such as Singapore, Korea, Malaysia, Taiwan and Thailand have contracted by 14 per cent on average in the fourth quarter of 2008. In Singapore, the value-added of the wholesale and retail trade sector declined by 5.3 per cent on-year in the fourth quarter of 2008, on the back of a sharp contraction in real non-oil re-exports (NORX) and non-oil domestic exports (NODX) (Exhibit 6).

Exhibit 6: Exports of Regional Economies Have Contracted**(A) Changes in Exports of Regional Economies****(B) Changes in Singapore's Real NORX, NODX and Wholesale and Retail Trade Value Added**

The short-term outlook for external trade and hence the wholesale trade sector remains uncertain. The World Bank has warned that global trade may decline this year for the first time since the Second World War.

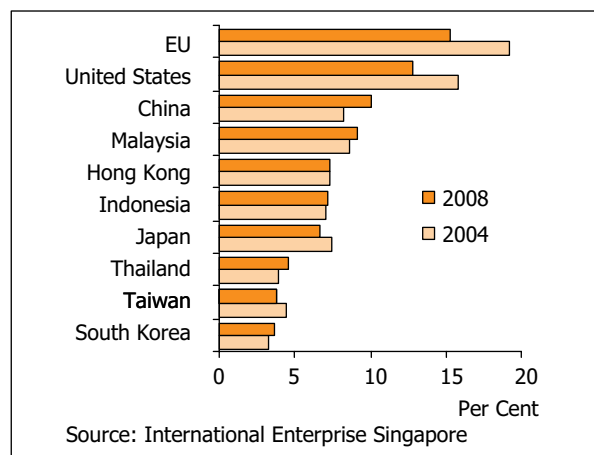
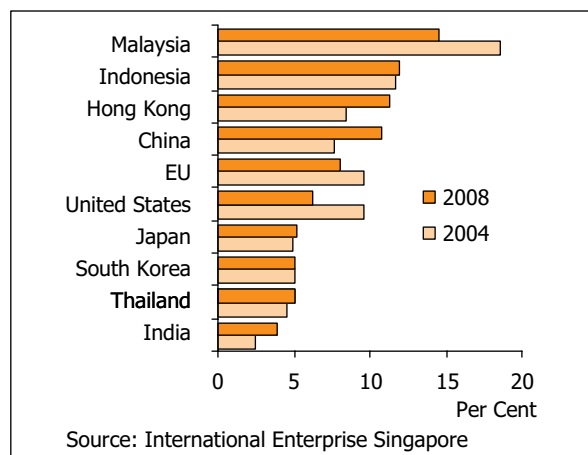
How fast global trade, and thus the wholesale trade sector, recovers depends on the extent to which measures currently undertaken by governments and central banks worldwide to stimulate their domestic economies and facilitate trade finance succeed.

In the meantime, to help companies ride out the downturn, the government has announced several measures to stimulate bank lending, and enhance the cash-flow and competitiveness of companies. These include measures specifically to help facilitate trade finance and export credit. For instance, under the Special Risk-Sharing Initiative (SRI) which aims to ensure that viable companies continue to have access to credit, the government will share in the risks of trade financing for the first time¹. In addition, the government has announced an Export Coverage Scheme (ECS) to provide better access to trade credit insurance cover for Singapore-based companies.

But long-term growth prospects remain positive...

Offshore trading in Singapore has become more diversified, as new offshore trading segments such as LNG trading are being anchored here. Furthermore, the prospects for our manufacturing sector remain sanguine with a strong pipeline of investments in a diverse range of industries including electronics, chemicals, biomedical manufacturing, and clean technology. Our domestic exports are therefore well-poised for growth over the longer term, and will be a key support for wholesale trade. Moreover, our exports are also going into more diversified markets. The EU and US now account for a lower share of both NODX and NORX, while the share of emerging markets like China is rising (Exhibit 7). IE Singapore is also constantly exploring new export markets such as Africa. These developments bode well for the long-term growth prospects of external trade and the wholesale trade sector.

¹ www.singaporebudget.gov.sg/key-initiatives/index.html

Exhibit 7: Share of NODX and NORX to EU and US Has Declined**(A) Percentage Share of NODX****(B) Percentage Share of NORX****Conclusion**

The wholesale trade sector has been a key engine of growth for the Singapore economy, with foreign wholesale trade (particularly offshore trade) playing an increasingly important role. In terms of major business activities, wholesale trade in computers and telecommunications, petroleum and petroleum products and chemicals and chemical products is rising in importance. This reflects the greater contribution from high value-added activities such as semiconductors as well as offshore trading in oil and chemicals products.

The global economic crisis has adversely affected the wholesale trade sector in the short-term, as global demand and trade flows have been badly hit by the crisis. However, the long-term prospects for Singapore's external trade and wholesale trade sector remain positive. Continued strength in our manufacturing sector, the anchoring of new offshore trading products, and the diversification of our export markets will help to sustain growth in the sector.

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