

Recent Trends and Outlook for Singapore's Services and Merchandise Exports

Services exports have grown in importance, reflecting structural shifts in the economy

Services exports are playing a more important role in the Singapore economy. As we have highlighted in a previous box article, the value-added (VA) contribution of services exports to the economy increased considerably in recent years, while the VA contribution of goods exports has remained stable over the same period.¹

The growing importance of services exports reflects a structural shift in the economy towards services. Exportable services industries, such as finance & insurance and wholesale trade, continue to grow, while manufacturing industries are also becoming increasingly services-oriented with knowledge- and skill-intensive activities. This increasing importance of services exports translates into increasing VA contributions to the Singapore economy because services exports generate more VA per dollar than merchandise exports.²

In recent years, services exports have recorded robust growth, driven by modern services...

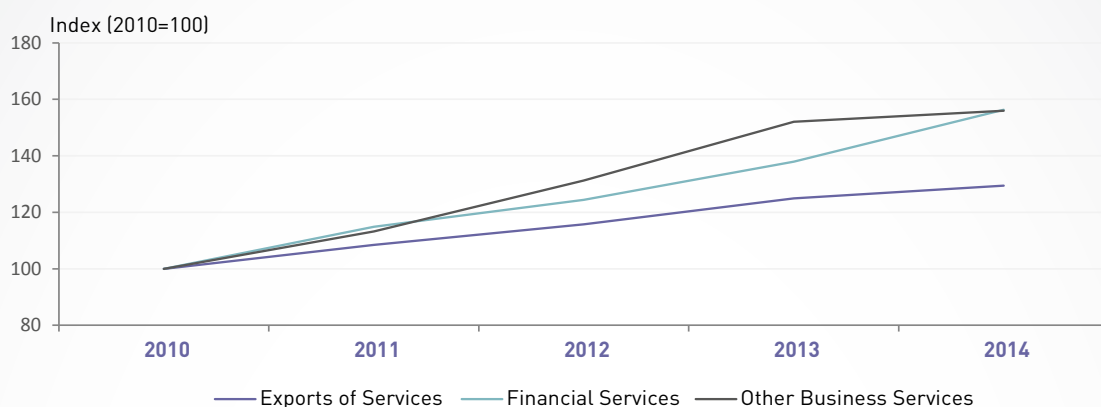
Services exports have performed well in recent years, growing by 6.7 per cent on a compounded annual growth rate (CAGR) basis from 2010 to 2014, significantly higher than the 2.0 per cent growth in merchandise exports over this period.

Growth in services exports was driven primarily by financial services and other business services categories (which include business management, accounting, legal and other professional services) (Exhibit 1). These two export categories account for close to 40 per cent of Singapore's services exports, and registered a CAGR of 12 per cent each between 2010 and 2014, much faster than the 6.7 per cent growth for overall services exports. Their rapid growth reflects Singapore's increasing attractiveness as a financial and business services hub within the region, as well as the growing external demand for such services.

¹ Based on OECD-WTO's Trade in Value-added (TIVA) data for Singapore, the VA contribution of services exports to the economy increased considerably between 2000 and 2009, rising from 24 per cent of GDP to 34 per cent of GDP. By contrast, the VA contribution of goods exports has remained stable, at around 23 per cent of GDP over the same period.

² In particular, services exports generate 51 cents per dollar exported whereas domestic exports of goods and re-exports of goods generate 34 cents and 13 cents, respectively.

Exhibit 1: Trends in Singapore Exports



Source: Singapore Department of Statistics

...and are expected to grow in importance in the years to come

The importance of services exports is likely to grow further, supported by both external and domestic trends.

Externally, the rise of the middle class and urbanisation in Asian economies such as ASEAN, China and India will continue to underpin the demand for modern services, including urban solutions and professional services. With the implementation of the ASEAN Economic Community (AEC) in 2015, services exporters in the immediate region will benefit from reduced barriers to services trade, the lowering of foreign equity limits and the liberalisation of more services sectors. In addition, the Regional Comprehensive Economic Partnership (RCEP), which links ASEAN, China and five other free trade agreement partners³, is expected to boost intra-regional trade flows when completed, benefitting Singapore's wholesale trade sector. These trends should help to spur growth in services exports by Singapore-based companies.

Domestically, the ongoing servicisation of manufacturing to encompass high value-added services activities (e.g., design, R&D and headquarter operations) will also provide a boost to services exports. This trend is expected to gather pace, as the adoption of new technologies such as additive manufacturing and robotics amongst manufacturers require many of them to be more deeply involved in product design, process engineering and other complementary services activities. It will also be supported by efforts by the government to deepen R&D and engineering expertise within the workforce.

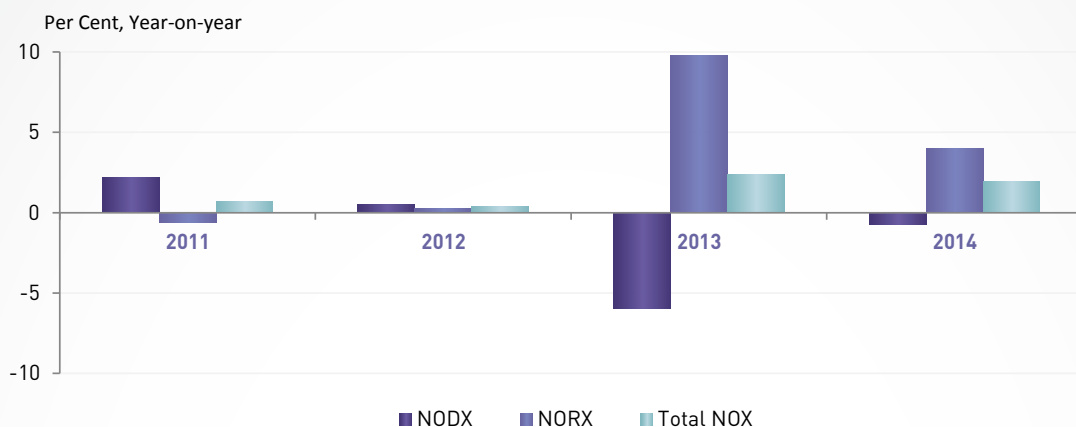
By contrast, the performance of Singapore's merchandise exports has been sluggish in recent years

Singapore's merchandise exports have experienced slower growth in recent years. Between 2010 and 2014, Singapore's merchandise exports increased by a CAGR of 2.0 per cent, compared to 13 per cent in the four years before the Global Financial Crisis (GFC). The weakness in merchandise exports was primarily due to sluggish non-oil domestic exports (NODX), which declined in 2013 and 2014, after recording modest gains in the preceding two years (Exhibit 2).⁴ On the other hand, non-oil re-exports (NORX) picked up strongly in 2013 following two years of stagnation and continued to register an expansion in 2014.

³ These are Japan, Republic of Korea, India, Australia and New Zealand.

⁴ Domestic exports generally refer to exports of Singapore origin. Re-exports generally refer to goods which are exported from Singapore in the same form as they have been imported without major transformation.

Exhibit 2: Changes in NODX and NORX

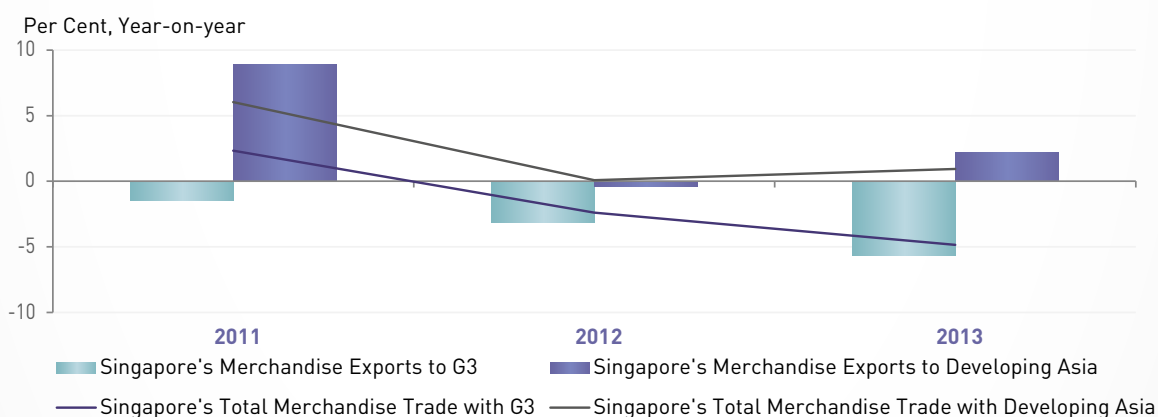


Source: International Enterprise Singapore

Weakness in Singapore's merchandise exports reflects global trends...

The weakness in the performance of Singapore's merchandise exports reflects a global pattern of decelerating merchandise trade growth in recent years. Data collected by the International Monetary Fund (IMF) shows that total merchandise trade for the G3 economies (US, EU and Japan) reversed its 17 per cent expansion in 2011 to register a 3.0 per cent decline in 2012 and flat growth in 2013.⁵ In Developing Asia, growth in total merchandise trade moderated considerably to 5.2 and 4.5 per cent in 2012 and 2013 respectively, from 26 per cent in 2011.⁶ Correspondingly, Singapore's exports to these key markets declined over the same period (Exhibit 3).

Exhibit 3: Changes in Total Merchandise Trade and Exports for G3 and Developing Asia



Source: International Enterprise Singapore

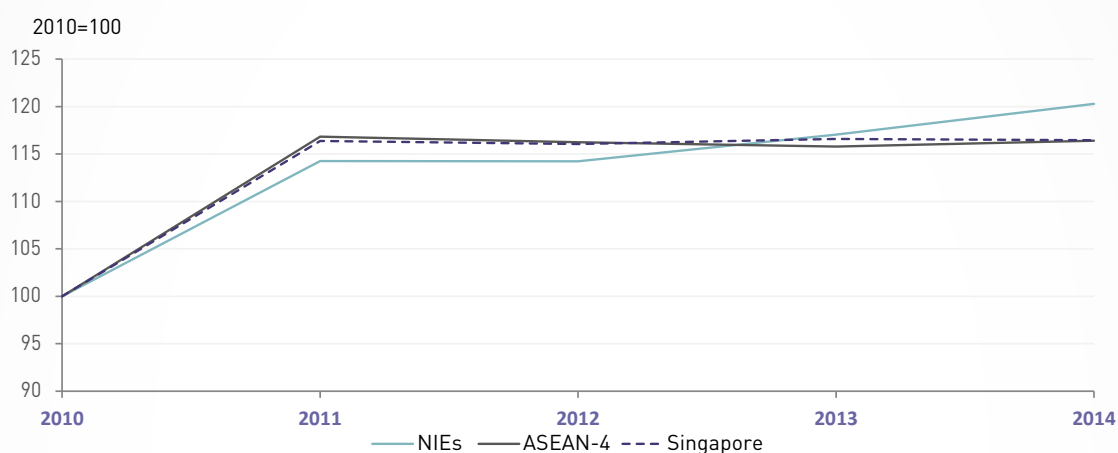
⁵ 2013 is the latest period for which the IMF's trade data is available.

⁶ The economies classified by IMF as part of Developing Asia include, but are not limited to, China, India, Indonesia, Malaysia, Myanmar, Philippines, Thailand and Vietnam.

Notwithstanding the challenging external conditions, Singapore's merchandise exports performed in line with other regional economies'

Despite the challenging external circumstances, the recent performance of Singapore's merchandise exports was largely in line with that of other regional economies', including the ASEAN-4 (Exhibit 4). While our exports also kept pace with the Newly Industrialised Economies' (NIEs) between 2010 and 2013, the latter's exports expanded at a faster clip compared to Singapore's and ASEAN-4's exports in 2014.⁸

Exhibit 4: Trends in Total Merchandise Exports for Singapore and Selected Regional Economies



Source: International Enterprise Singapore

In the near-term, Singapore's non-oil merchandise exports growth is likely to remain modest

The near-term outlook for Singapore's merchandise exports remains modest. While economic growth in the US is expected to accelerate, the recovery in the Eurozone is likely to remain weak due to deflationary pressures and sluggish labour market conditions. Japan's economy is also expected to remain lacklustre, weighed down by the sales tax hike in April last year. In China, growth is expected to ease further on the back of the ongoing correction in the real estate market. The recent decline in oil prices has also dampened growth prospects in oil-exporting economies, although it could benefit oil-importing economies. Taking into account these external factors, IE Singapore expects Singapore's NODX to grow moderately by 1 to 3 per cent in 2015.

Likewise, services exports are also expected to provide support to overall exports growth. In particular, modern services exports such as financial services and other business services are expected to hold up well, with growth underpinned by firm regional demand catering to a rising Asian middle class.

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⁸ The Newly Industrialised Economies are Hong Kong, South Korea and Taiwan. In 2014, merchandise exports from Singapore and ASEAN-4 remained flat at -0.1 per cent and 0.5 per cent growth respectively. On the other hand, merchandise exports from the NIEs expanded at a faster clip of 2.8 per cent.

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