

THE ANALYSIS OF FOREIGN DIRECT INVESTMENT FLOWS IN SINGAPORE

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Abstract. *Articolul analizează dezvoltarea economică a Singapore și atractivitatea sa ca destinație pentru investițiile străine. Este evidențiat mediul politic stabil, climatul de afaceri favorabil și infrastructura bine dezvoltată din Singapore ca fiind factori-cheie care contribuie la atractivitatea acestui oraș-stat. De asemenea, articolul analizează fluctuațiile fluxurilor nete de intrare și ieșire a investițiilor străine directe (ISD) în Singapore, atribuind aceste tendințe schimbărilor în condițiile economice globale, politicilor guvernamentale și concurenței din partea altor țări din regiune. Autorul notează că Singapore a înființat o serie de agenții care implementează politici de promovare a investițiilor, utilizând stimulente pentru investiții, oferind tratament național și un climat de investiții deschis și transparent. În general, performanța economică a Singapore, poziția strategică ca poartă de acces în Asia și acordurile de liber schimb cu alte țări fac din această țară o destinație atractivă pentru investitorii străini.*

Cuvinte cheie: *Singapore, Investiții Străine Directe (ISD), Produsul Intern Brut (PIB), economie, fabricare, servicii, politici*

JEL CLASSIFICATION: F21

INTRODUCTION

The aim of this paper is to analyze and evaluate the dynamics of Foreign Direct Investment (FDI) flows of Singapore in recent years and the impact it had on the economy both domestically and internationally. Additionally, the paper will contain analysis of statistical data presented in figures followed by personal comments based on individual understandings and beliefs. The importance of the paper is to acknowledge youths about the economic situation of a certain country outside our own and to understand the impact of one's economy on worldwide affairs. I have chosen Singapore, because, although it is a small country, it has registered a remarkable economic development, and it is one of the few countries in the world without public debt, and additionally it has registered significant growth rates in the last years, being very attractive for foreign investors. Besides, the paper will present Singapore's promotion policy and initiatives in order to retain foreign investors and the national agencies responsible for the matter. The end of the paper will be followed by a personal conclusion and other recommendations for further readings and better understanding of the topic presented.

MAIN CONTENT

According to World Bank analysis, Singapore is considered to be a high-income country and has a Gross National Income (GNI) of above 54 thousand US\$ per capita as of the year 2017.⁶ Singapore has registered some rapid growth of the economy development due to the government's knowledge of what are the most profitable areas to invest in. Starting with the year of 1960

⁶ World Bank, source: <https://www.worldbank.org/en/country/singapore/overview>

manufacturing became a driven force of the growth. Until now, manufacturing and services sectors remained the 2 main pillars that stimulate the development of the city-state. In fact, Information and Communications Technology (ICT) sector is growing very fast too. Singapore operates three satellite stations and has recently launched its inaugural satellite with coverage spanning across East Asia.⁷

Singapore is a magnet city-state for the FDI inflows due to its stable political environment, favorable business climate, and well-developed infrastructure. It is considered to have established a business-friendly environment in order to maintain the flow of foreign investors who invest from real estate, stocks or bonds to private equity, hedge funds and venture capital.⁸ In order to evaluate its net inflows of FDI throughout the last twenty years we can analyze the figure below:

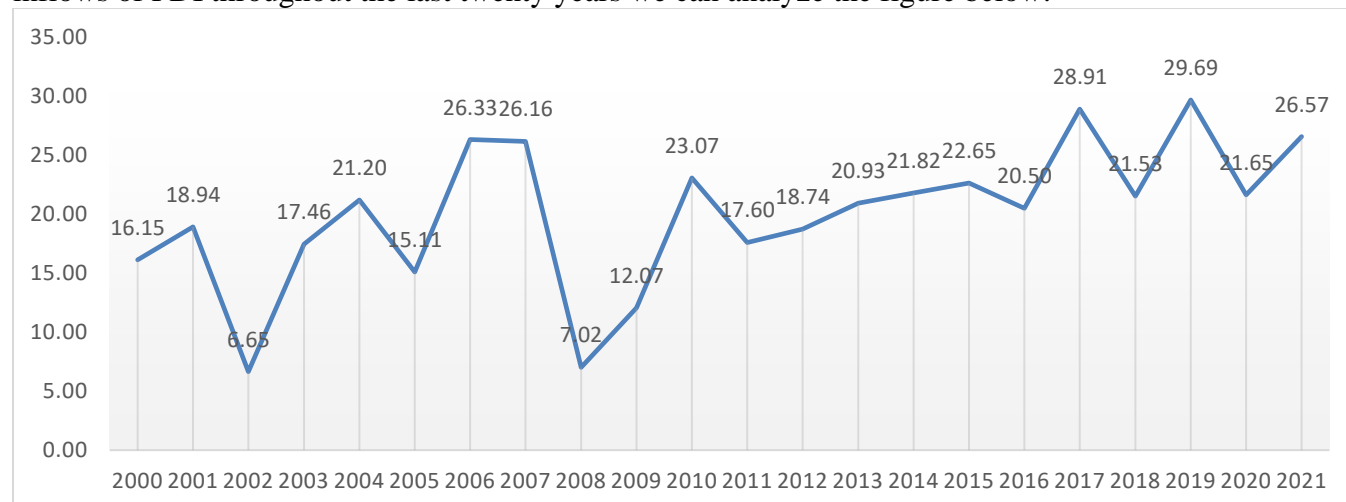


Figure nr. 1. Net Inflow of Foreign Direct Investment (FDI) in Singapore (% of GDP)

source: Elaborated by the author based on the data from:

<https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2021&locations=SG&start=2000>

From the following figure we can conclude that starting with the year of 2000 and until 2021 the FDI inflows have been fluctuating and almost never were constant or with a steady increasing trend. This evolution was due to changes in the global economic conditions, such as a recession or a slowdown in major economies (i.e. global economic crises- 2008, pandemic crises- 2020), or various policies to attract foreign investments, or competition from other countries in the region that are also seeking foreign investments. Sometimes due to the fact that Singapore may channel the investments in a certain area, other areas may also be affected and as a consequence slow down the growth of the economy. However, even though in the year of 2021 there was registered an increase of about 4% (compared to the previous year), according to preliminary data in the year 2022 overall there would be also registered an increase, although in the beginning of 2022 it had a significant decrease due to the impact of the war in Ukraine and the, generated by it, energy crisis. While Ukraine seems to be so far from Singapore, still the supply chains are connected worldwide, therefore the impact of the war is much greater than it seems to be at the first sight.

⁷ Chia Siow Yue, *Singapore and the IT revolution*, source: https://www.nomurafoundation.or.jp/en/wordpress/wp-content/uploads/2014/09/20000512_Siow-Yue_Chia.pdf

⁸ Joyce Chua, *The most popular types of investment in Singapore*, September 20, 2022, source: [https://www.valuechampion.sg/most-popular-types-investment-singapore-best-gains#:~:text=Traded%20Funds%20\(ETFs\)-,Fixed%20Deposits,Robo%2DAvisors](https://www.valuechampion.sg/most-popular-types-investment-singapore-best-gains#:~:text=Traded%20Funds%20(ETFs)-,Fixed%20Deposits,Robo%2DAvisors)

In order to better understand Singapore's position in relation to FDI outflows and its economic situation, we can analyze the figure below that presents the net outflows of FDI of Singapore.

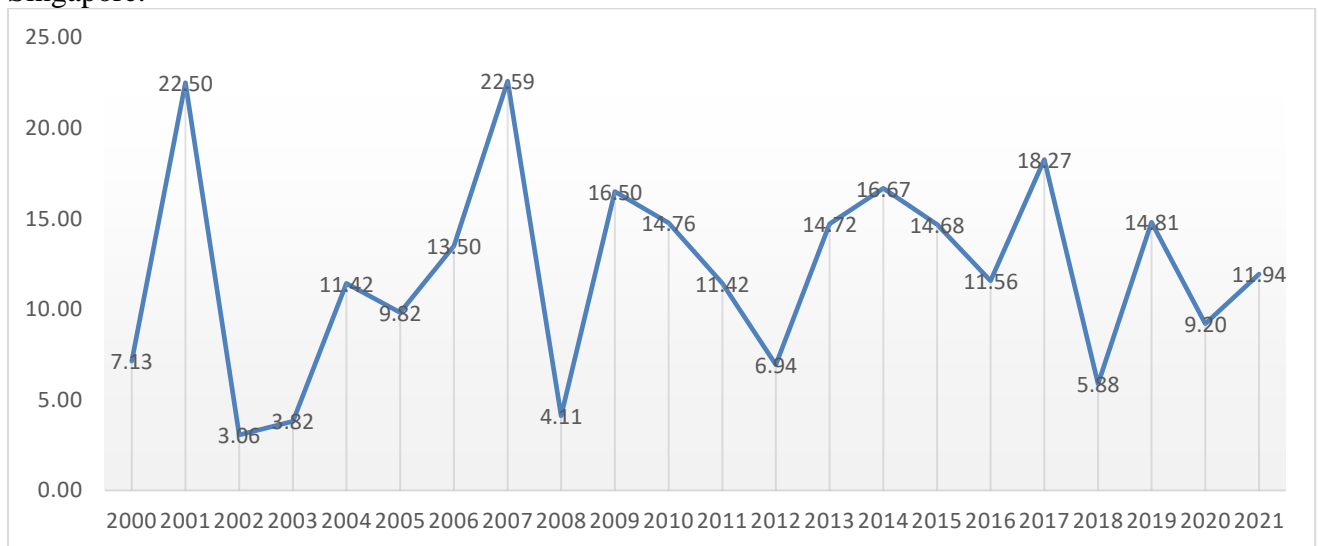


Figure nr. 2. Net outflow of foreign direct investment (FDI) from Singapore (% of GDP)

Source: Elaborated by the author based on the data from:

<https://data.worldbank.org/indicator/BM.KLT.DINV.WD.GD.ZS?end=2021&locations=SG&start=2000>

Comparing to the first figure we can conclude that the net outflows throughout the years 2000-2021 were even more fluctuating. Too big “waves” are not a positive sign either, the decreasing trends coincide with the crises and recessions, such as for example the global economic crises from 2008 and pandemic crises from 2020, and it also reflects some change or implementation of new policies by the government. Fluctuations in FDI outflows from Singapore may also be influenced by investor sentiment and behaviour following the changes on the global level, as well as regionally, as an effect of policy changes of host governments. For example, if investors are optimistic about the prospects for a particular market or sector (in the periods of economic stability on international level), they may be more likely to invest in that market, while if they are more risk-averse or cautious (during great slowdowns or recessions), they may hold back on investing.

Singapore uses a number of promotion policies in order to stimulate foreign investors to come, which includes investment incentives, national treatment, the right for foreign companies to switch offshore for labor-intensive operations, strategic and favorable location and open and transparent investment climate. In addition, Singapore has become an attractive location for foreign investment due to a combination of factors, including political stability, advanced transportation and communication systems, a well-established infrastructure, and a motivated workforce.⁹ Behind this promotion policy are Singaporean national agencies that are trying to make Singapore look as attractive as possible. These agencies are: Economic Development Board (EDB) - focuses on attracting foreign companies to establish operations in Singapore, as well as encouraging existing companies to expand their operations in the country, International Enterprise (IE)- focuses on helping

⁹ WTO, *Foreign Direct Investment: General Policy Direction of Singapore*, source:

<https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/TPR/S14-3.pdf&Open=True#:~:text=Singapore's%20policy%20to%20encourage%20FDI,currency%20or%20to%20any%20country>

Singaporean companies expand their businesses overseas Singapore and Monetary Authority Singapore (MAS)- promotes Singapore's financial sector and attracts financial institutions to set up operations in the country.

CONCLUSION

In conclusion, Singapore has a very high potential in terms of growing and developing with a high speed and attracting foreign investment. Starting with culture and ending with governmental policies, everything is done for the foreigners to visit, to cooperate with Singapore and to invest. The country itself is very business-friendly, moreover, its strong economic performance and strategic location as a gateway to Asia have further enhanced its appeal to foreign investors. Singapore has signed multiple free trade agreements (FTAs) with other countries, which has helped to reduce trade barriers and facilitate cross-border investment. Furthermore, the country has consistently ranked high in global indices that measure the ease of doing business, reflecting its efficient regulatory framework. According to World Bank Singapore ranked overall on the 2nd place in 2020.¹⁰ While Singapore faces challenges in maintaining its competitive edge in the face of rising regional competition, its continued focus on innovation and talent development forecasts well for its further projects in attracting and retaining FDI in the future.

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¹⁰ World Bank, *Ease of Doing Business in Singapore*, source:
<https://archive.doingbusiness.org/en/data/exploreconomies/singapore>