IN MANY WAYS, SINGAPORE’S future has never been brighter. The initiatives the country is taking now, if they pan out, promise to take the country to the next level of development. Singapore wants to move from just following the lead of others to actually becoming a global center on par or ahead of others in innovation and technological prowess.

To achieve this transformation will not be easy. But Singapore has consistently confounded its skeptics over the last four decades, when many wondered if this tiny “dot on the map” (as Singaporeans themselves like to call their home) could survive on its own.

“Singapore has to transition to a new phase of innovation-led growth and its economic future will depend increasingly on its ability to create internal engines of growth. New strategies must also map out now that Singapore is competing closer to the technological frontier,” says Winston Koh, associate professor of Economics at Singapore Management University and co-author of the recent book The Economic Prospects for Singapore. (continued on next page)
Singapore has targeted a number of industries to help achieve these lofty value-added goals for itself. "Singapore is developing new growth drivers in several areas. In manufacturing, the two target sectors are biomedical sciences and chemicals. In services, the hub concept is being pursued in several areas: financial, logistics, aviation, education, tourism and healthcare," says Koh.

Take the biotech industry. Five years ago, biotech represented a tiny fraction of the economy, just 2 percent. Today biotech industries make up 9 percent of the GNP, rising to some $10 billion today in manufactured output. Boosting the growth of the industry was the opening of the state-of-the-art Biopolis center in 2003, a cluster of buildings that boosts a team of researchers drawn from local and international talent pools, and represents an investment of over $300 million. Within the next five years, the government hopes to raise the figure to $15 billion. Among the foreign pharmaceutical companies that have invested in Singapore are AstraZeneca, Novartis, Pfizer, GlaxoSmithKline and Schering-Plough.

There are initiatives underway to foster the same type of development, partnering with foreign investors, in other fields such as logistics and financial industries. Given its strategic location at the crossroads of Asia, the geographic reason why Singapore was picked by the British for development, the country has a natural edge in being a travel, logistics and trading hub for the region and even globally. It is Asia's largest trading center for the energy markets to give one example.

A KEY TRANSPORT HUB

To stay competitive, Singapore is moving forward with projects such as a dedicated terminal at the airport just to service all the low-cost carriers springing up in the region (including two based in Singapore, Tiger Airlines and ValuAir). Its main port, the PSA (formerly The Port Authority of Singapore), remains as one of the busiest ports in the world and is increasingly playing a global role by merging or acquiring ports around the globe.

Investors have taken notice of Singapore. As Asian markets overall have started to improve and gain the attention of global investors, Singapore is emerging as one of the more attractive investment destinations. In July, Singapore's Raffles Holdings (a subsidiary of Capitaland) sold off the landmark Raffles Hotel and 46 other hotel properties to the US-based private equity firm Colony Capital for $1 billion. In the medical field, regional hospital chain Parkway Holdings sold a 26 percent stake for $188 million to private equity firm Newbridge Capital.

"Singapore embodies all the attractive attributes that an investor or a company needs: world-class infrastructure, flexibility, excellent education system, pro-business environment," says Michael Marks, the head of global OEM

SingTel satellite dishes near Singapore. Singapore Telecommunications Ltd., Southeast Asia's largest telephone company, says its quarterly net profit rose 13.7 percent, or $482 million from a year earlier, boosted by regional mobiles.
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FRANK LAVIN
US AMBASSADOR TO SINGAPORE

Singapore has three distinctive strengths that make it competitive, the first is security in the form of safety and a strong regulatory and legal regime, second is its infrastructure, arguably more advanced than many developed nations, finally, the education system that ensures a highly educated workforce.”

SHARM MANZANA, HEAD OF CONSULTING SERVICE MCKINSEY IN SINGAPORE

manufacturer Flextronics, which is headquartered in Singapore.

These deals are not only a sign of confidence in Singapore’s future, they also indicate a newfound willingness by the state-controlled companies to let go of assets deemed unstrategic. And just as Singapore is drawing foreign investment into its assets, Singapore companies are increasingly looking to become more global.

One of CapitaLand’s units, Ascott, has become the largest operator of serviced apartments in the world outside the US market (where there are several big but largely domestic players). And the company is positioning itself as a regional player and one that can help international investors profit from opportunities in the region.

A successful pioneer in this regard has been the country’s largest market capitalization company, SingTel. Just a few years ago, it was purely a domestic company, but then it undertook a series of regional buys stretching from Australia to India. Today, Singapore accounts for only about one-third of the telecom’s revenues. ST Telemedia, another smaller telecom player, became the owner of the bankrupt Global Crossing network, giving it access to one of the world’s most advanced fiber networks.

“Singapore can bring to bear some important strengths in the global economy, be it as a logistics hub, a biotech center, or a regional management platform for multinational companies,” says Frank Lavin, the US ambassador to Singapore. “I think the real economic challenge for Singapore as its economy matures and internationalizes is the extent to which Singapore-based companies will have the appetite and the capabilities to go cross border. I see a number of SMEs in Singapore that could well scale up regionally,” Lavin says.

BANKS GO GLOBAL, TOO

In financial services, there is also a push to go global. Both the state-controlled DBS Bank and the entrepreneur-run United Overseas Bank are actively seeking opportunities to expand in the region. They are joined by DBS Bank’s ultimate owner, Temasek Holdings, a government-linked investment agency that also is buying banking assets on a regional basis.

Of course, the first modern industry in Singapore, its port, is also one of the most global. The PSA has leveraged off Singapore’s strategic geographic location to become one of the world’s biggest and busiest ports. And in the last few years the PSA also has undertaken an extensive globalization push, buying stakes in port operations around the world.

Indeed, Singapore has used the advantage of geography to become an increasingly key center for tourism and logistics, two inherently global businesses. In transport, Singapore Airlines is arguably one of the world’s best airlines as ranked by any number of independent sources. To keep its edge in this area, Singapore has undertaken a number of efforts, including the construction of a special airport terminal dedicated to serving just the low-cost airlines that are sprouting up all over the region.

Such outward thinking helps to compensate for Singapore’s inherently small domestic market of roughly 3 million (closer to 4 million when including foreigners living in the country). ‘Singapore has three distinctive strengths that make it competitive,’ says Sharm Manzana, head of consulting service McKinsey in Singapore. Manzana says the first is security in the form of safety and a strong regulatory and legal regime. “Second is its infrastructure, arguably more advanced than many developed nations,” he says. Finally, he cites the education system that ensures a highly educated workforce.

To stay competitive, Manzana says that Singapore should develop its own natural resource: its people. “Singapore must continue to attract foreign talent and build local talent,” he says. “Ultimately Singapore should become the place for talent in Asia.” Unlike other countries in Asia, the city-state’s polyglot heritage means many in the population are multi-lingual and can adapt easily to various cultures.

One of the biggest challenges and oft-heard refrains is to enhance the creative and entrepreneurial drive of Singaporeans. As the state seeks to play a smaller role, the private sector will have to pick up the slack for new job and new tech generation. One of the leaders of this effort is Olivia Lum, founder of waste water treatment firm Hyflux. Abandoned at birth, Lum grew up poor in Malaysia, but set up Hyflux — a
company that now has a $1 billion market capi-
talization and is one of the largest in its field in
Asia outside of Japan.

Financial services are one area where global-
ization and a talented workforce are in
Singapore’s favor. Take private banking. While
Hong Kong has long dominated Asia as the
leading regional offshore center, Singapore is
aggressively playing a game of catch-up. It has
had some wins, such as Credit Suisse setting
up the largest private banking center it has in
the world outside of Switzerland.

DIVERSIFYING AWAY FROM TECH

And financial services is an area where com-
petition from China or India cannot easily erode.
While many have seen the rise of these two
countries as a zero sum for Singapore, others
argue it will have a positive impact. “Despite
the rapid rise of its manufacturing, China has not
been successful in hollowing out either the man-
ufacturing output or manufactured export share
of Southeast Asia from 1994 to 2004. Given
Singapore’s deep pockets, its strategy to diversi-
fy its manufacturing away from IT toward the

chemical and bio-chemical sectors appears to
be correct as it lessens Singapore’s dependence
on the volatile and increasingly margin-thin IT
cycles,” writes Morgan Stanley analyst Daniel
Lian in a recent commentary to investors.

Still, it will not be a cakewalk. Notes Professor
Koh: “The challenge for Singapore is to maintain
its competitive edge by improving its productiv-
ity and building niches of excellence. However,
the challenge will not be easy as other high-tech
regions in China, India, Israel and Ireland are
now competing with Singapore for both capital
and talent.”

In part to make Singapore a more attractive
place for that talent, the country has adopted
many measures to counter the stereotype that it
is, well, a dull place. The famous chewing gum
ban has been eased (if not wholly lifted).
Tabletop dancing has famously been allowed.
The Crazy Horse nude review show from Paris,
has just announced it will set up its first venue in
Asia in Singapore. And the biggest move of all
has been the decision to build two large resorts
that will include casinos on the island nation, an
investment that eventually will run into the bil-
lions. This is another bet that Singapore expects
to pay off. ■

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DANIEL LIAN,
MORGAN STANLEY ANALYST