

Singapore

Comes of Age

From colonial outpost to hi-tech Asian tiger, Singapore has effected an astounding transformation in 40 years. The mere mention of the tiny city state invites a string of superlatives. With all industries open to foreign investment, the Singapore Government has made sure its free-enterprise economy stays neck-and-neck in the battle to be the leading financial hub with Hong Kong. Rated as having the best business environment in the region, and the fifth-best worldwide out of 60 countries, Singapore is also the world's fourth-largest foreign exchange trading center, with only London, New York and Tokyo in front. Singapore's stock exchange, the SGX, is one of Asia's largest. In 2004 the World Economic Forum's Global Competitiveness Report put Singapore among the top 10 most sophisticated financial markets in the world.

All sectors of the Singaporean community can rely on the Government to come up with measures to support wealth creation. Earlier this year they proposed cuts to personal tax rates to 20% by 2007, to attract foreign workers and multinationals. The budget, presented by Prime Minister and Finance Minister Lee Hsien Loong, included other incentives to develop Singapore further as a leading wealth management hub. The tiny state is also on track to become a leading private banking center and is even set to overtake Switzerland by 2007 as the fastest

growing offshore center globally, as its growth in private banking assets soars, according to an IBM Business Consulting survey. Switzerland holds about 1.3 trillion euros of assets for foreign investors, the same amount as last year, according to Swiss National Bank figures. Assets under management in Singapore may be a fraction of that at 70 billion euros, but Bloomberg predicts growth of 20% annually. This would seem to be partly driven by European private banking funds flowing in from Switzerland and Luxembourg, part of the trend for foreign wealth to find a home in Singapore.

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Tax Haven

A major attraction is the tax rate: the European Savings Directive imposes a 15% withholding tax on assets in European offshore havens, while Singapore permits tax exemptions for non-residents on their

income from overseas. The favorable tax environment also allows tax exemptions for non-residents on their locally sourced income from financial institutions. This hospitable regime has helped increase the estimated high net worth population to nearly 50,000 people in 2004, a growth of more than 22% on the previous year.

If the Government has been conservative in the past, there are signs of its liberal financial attitude to equity, licensing and joint ventures spreading to its citizens. Singaporeans will soon be able to have more fun. Not only are the controversial proposals to introduce integrated resorts, complete with the Lion City's first casinos backed by the Government, but the risqué Crazy Horse Paris Show is also coming to town.

Turbulent History

What Sir Thomas Stamford Raffles, who arrived in Singapore as agent to the British East India Company in 1819 would make of 21st century Singapore is anyone's guess. In 1826 Singapore, Penang and Malacca were united as the Straits Settlements, which became a British Crown Colony.

World demand for rubber and tin fuelled Singapore's growing standing as a significant port and so the fledgling economic miracle took flight. Bloodied by the Japanese occupation from 1942 until

the British returned three years later, the War in the Pacific checked its progress somewhat, but by 1946 Singapore had become a separate Crown Colony.

Self-government followed in 1959, and in 1963 it joined the newly created Malaysia. After a period of friction with the Central Government of Malaysia, Singapore became an independent republic governed by a parliamentary system with an elected prime minister and cabinet. The date was August 9, 1965, 40 years ago today.

Despite its small size, by selling itself to foreign investors as a world-class financial, telecommunications and transport hub, Singapore is able to challenge Hong Kong, its closest rival in terms of size and positioning, constantly. The focus is firmly fixed on foreign investment. The recent Ministry of Trade and Industry Economic Survey of Singapore showed fixed asset investment commitments in manufacturing, which attracts the most foreign investment, totaled S\$8.3bn in 2004. This was an increase from S\$7.5bn the previous year. Foreign investment amounted to 72% of that. In terms of net investment in manufacturing, the top investors were the US and Europe at 27% each and Japan at 14%.

Mini Miracle

The economic miracle has occurred despite its small size: Singapore covers just 255 square miles (660 sq km). Made up of the main island, it is joined to southern Malaysia by causeway and includes about 50 smaller islands. But of all the key factors in its continuing regional dominance, its reputation as a safe environment with a zero-tolerance attitude to crime and corruption should not

be overlooked. In uncertain global times, Singapore is racially calm, despite its diverse ethnic mix of Chinese, Malay and Indian inhabitants, and it is politically rock solid. Add sophisticated infrastructure and it becomes what has drawn more than 4,000 multinational companies to make their regional or world headquarters there.

Second Quarter 2005 Advance GDP Estimates	
Overall GDP*	3.90%
Goods Producing Industries	
Manufacturing*	3.50%
Construction*	-1.40%
Services Producing Industries*	4.20%

*: year-on-year percentage change

GDP Forecast	
2005	2.50% - 4.50%

Source © Ministry of Trade and Industry

With few natural resources aside from a skilled multi-lingual workforce and stable regime, Singapore has had to change with the times and diversify the scope of its limited economy over the last 40 years. Heavily focused on manufacturing, the Government currently is pushing life sciences as a critical part of the manufacturing sector. Targets for the biomedical sciences industry are equally ambitious, at S\$25bn in manufacturing output and 15,000 jobs by 2015. Biopolis, Singapore's cutting-edge biomedical center, opened in 2003 and, once fully up and running, will be home to 4,000 researchers. The world's leading pharmaceutical firms have also set up shop in Singapore, among them Pfizer, which has established a multi-purpose manufacturing facility, British firm AstraZeneca and French-run Aventis.

Center for Medical Excellence

The Government is also keen to promote Singapore's status as a world-class medical hub. The National University Hospital (NUH) and local branch of US College Johns Hopkins Singapore joined forces in 2000 to form Johns Hopkins-NUH International Medical Center. Specialist facilities such as the Singapore National Eye Center and Singapore Heart Center have been added to attract more patients. Earlier this year the National University of Singapore (NUS) partnered with Duke University in the US to form the NUS Graduate Medical School.

Thought Leadership

When it comes to thought leadership, NUS Business School proclaims itself proud to be part of several such partnerships. "Because only when it brings together the best of academics and business practitioners from around the world can it stay at the forefront of business thought. Business is fundamental to Singapore's ideal of achieving the status of a global business powerhouse," an NUS spokesman says. Two recent initiatives from INSEAD, the leading international business school with its Asia campus in Singapore, also support Singapore's claim to regional thought leadership.

InnovAsia profiles technology innovation across Asia, helping US and European companies tap into this growing trend. The Asia Pacific Institute of Finance is performing financial research in Asia and will create executive education programs to help develop management skills in this sector. The standalone University of Chicago's Singapore campus offers a part-time Executive MBA Program. Beth Bader,

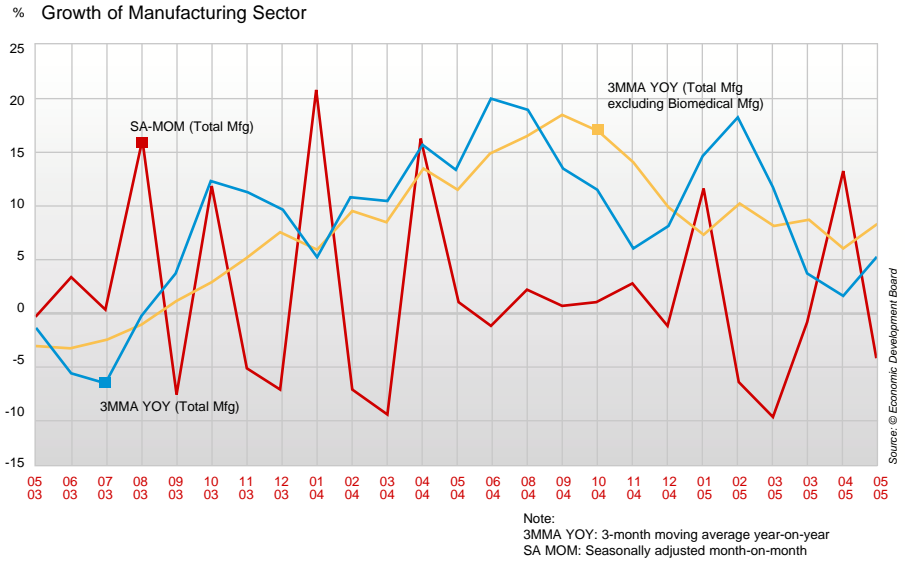


managing director of the Asia Campus says they chose Singapore for its central location in the region, excellent infrastructure and transparent legal system. Another growing area is e-learning. Universitas 21 Global, an international network of 16 well-known universities, including the National University of Singapore, established Universitas 21 Global in 2001 to offer an MBA program. "One of the many reasons we decided to set up its global headquarters in Singapore was its access to China and India, two of their key markets," explains Dr Mukesh Aghi, CEO of Universitas 21 Global.

Manufacturing Center

The city state knows it cannot stay on top in a competitive manufacturing and services sector without a highly educated English-speaking workforce. "Singapore has established global leadership positions in several manufacturing areas which it intends to keep," explains Mr. Ko Kheng Hwa, Managing Director of the Singapore Economic Development Board (EDB). He cites impressive statistics: in terms of world market share of production, it can claim 70% of offshore oil rigs, 50% of fast ferries, 35% of in-flight galley equipment and 35% of the world's optical grade polycarbonate (PC), used to make CDs, DVDs and CD-Rs. Add to that 30% of hard disk drives, 30% of hearing aids and 25% of retail point of sale impact printers. That's not forgetting the 20% of ship repair and 10% of refrigerator compressors.

The city state also leads Asia in production of flavors and fragrances and oil field equipment. It also enjoys regional dominance in aerospace maintenance and repair and overhaul (MRO).



Core Fundamentals

The EDB explains that Singapore's success thus far is underpinned by what it calls the "CORE fundamentals" – Connectivity, Openness, Reliability and Enterprise. "Our CORE strengths will continue to take Singapore into our next phase of growth, even as we expand and build on newer areas," says Mr. Ko. Singapore is also energetically pushing to become world leader in the science and technology field and information technology (IT) players are being lured to Singapore. A 10-year master plan contains technology initiatives designed to promote e-commerce to benefit the local economy, industry and people.

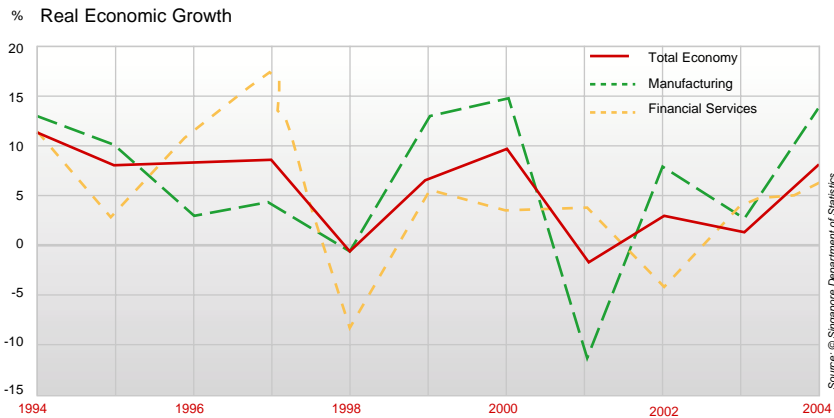
Together with these, the promotion of digital media, environmental services, alternative energy, embedded software, micro-electro-mechanical systems (MEMS) and photonics are also high on Singapore's agenda.

To this end a conducive business environment is being created to maximize potential in all areas. "We are not bound by the size of our domestic market, and we continue to attract the best from all over the world to work here," explains Mr. Ko. "We recognize that as the Singapore economy transitions into a more knowledge-driven one, the need for greater knowledge investments becomes even more critical."

Highly Wired

Singapore is considered one of the most wired countries in the world. In the technology field, many global companies have made it their regional home. Americans feel comfortable with Singapore's free-market economy, which often follows the US lead. Many US-based companies outsource their data center operations and network management to Singapore.





Annual Growth in External Trade (%) at 2000 Prices

Year	Total Trade	Exports	Imports
1995	13.8	14.9	12.8
1996	9.5	9.5	9.5
1997	10.3	10.8	9.8
1998	-6.3	0.3	-12.4
1999	6.2	4.4	8
2000	14.6	15.4	13.9
2001	-7.3	-5.2	-9.4
2002	5.3	7.9	2.5
2003	10.6	14.3	6.5
2004	21.7	20.8	22.7

“Singapore is perceived as a more technology-oriented center than Hong Kong now,” says Guy Day, managing director Asia for executive recruitment company Ambition. “Many companies have regional headquarters there, including SAP and Microsoft,” he adds.

Singapore is also becoming the platform of choice for enterprises to internationalize, particularly those from the Asia-Pacific region. To date, according to the EDB, there are about 1,200 Australian and New Zealand, 1,500 Chinese and 1,500 Indian enterprises which have set up in Singapore.

“Many are here to connect with the diverse pool of international players as well as to secure funding and/or to gain market access through our extensive network of free trade agreements (FTAs),” Mr. Ko explains.

Global Brands

The Lion city has its fair share of home brands which have achieved global status. These are led by Singapore Telecommunications (ranked 208 in Best Global Brands). In second place comes DBS Group Holdings (444), with, in third position, United Overseas Bank (456).

Many of the new industries being promoted are research-based, with a view to strengthening manufacturing competencies. The government is placing a much stronger emphasis on research and development (R&D) and innovation by increasing investments in these sectors.

Singapore intends to increase its investments in R&D from the current 2% of GDP to at least 3%, in line with best global benchmarks. The diversity of today’s

manufacturing sector gives Singapore resilience against global market changes and technological cycles. The EDB aims to keep manufacturing’s contribution to GDP at about a quarter, and to double output to S\$300bn by 2015.

Hedging Their Bets

Added to that, Singapore’s strong services sector provides another hedge against global economic and technological cycles.

Singapore’s banking and financial activities are equally high up the Government’s agenda, switching from a three-tier full, rested and offshore, bank licensing regime to a two-tier system of full and wholesale banks. The Monetary Authority of Singapore (MAS) launched a five-year liberalization program in 1999, involving Dutch bank ABN AMRO and French bank BNP Paribas to open the domestic banking market to more foreign competition. Four Qualifying Full Banks (QFB) and eight Qualifying Offshore Bank (QOB) licenses were granted in late 1999. Between 2001 and 2003 QFB status was given to HSBC (UK) and Maybank (Malaysia). In doing so they joined ABN AMRO, Citibank (US), BNP Paribas and Standard Chartered (UK) which already had the privilege. By May this year, Singapore also had 32 institutions classified as wholesale banks.

The three biggest local banks are Overseas-Chinese Banking Corp, United Overseas Bank and the Development Bank of Singapore (DBS). DBS Group is one of the largest financial services groups in Asia and a pillar of the financial community. The largest bank in Singapore as measured by assets, DBS is a leading player in consumer banking, treasury and markets,



asset management, securities, brokerage, equity and debt fund raising. In terms of market capitalization, it is one of the largest companies listed on the Singapore Stock Exchange.

From the largest to the oldest, ABN AMRO, as one of the six qualifying full banks, is the oldest foreign bank having been in Asia for nearly 180 years. It opened its first office in Singapore back in 1858.

Innovation Leader

Proud of its stock exchange, SGX is the nerve center at the heart of Singapore's thriving economy. Singapore Exchange Limited (SGX) is Asia-Pacific's first demutualized and integrated securities and derivatives exchange.

SGX can claim several firsts. It was the first securities market in Asia to trade floorless, it is the most international among regional exchanges, with 28% foreign listings, and it is developing SGX Quest, which will be the world's first integrated trading engine for securities and derivatives markets. The Quest-Derivatives Trading (DT) engine was launched in August 2004 and the Quest-Securities Trading (ST) will operate in 2006.

Some of the biggest regional players listed on the SGX include: SingTel, DBS Group Holdings, Singapore Airlines, Hongkong Land Holdings, Jardine Cycle & Carriage and Noble Group.

Targeting IPOs

A major target market is initial public offerings (IPOs), especially China (PRC) companies seeking to list. "Foreign listings are a major driver of the business of SGX

and we welcome well-run companies from all over the world, not just China, to list on the SGX," the spokesman explains.

About 28% of the listings on SGX are foreign companies, which together make up 40% of its market capitalization. "Foreign companies are well received by Singapore investors and enjoy a higher turnover velocity than local stocks," the spokesman adds.

Assets under management in Singapore are well in excess of US\$270 billion. Many listed companies have come to the market to raise additional funds through rights issues and placements. Examples of recent significant SGX listings include Suntec Reit (Market Cap: S\$1.57 billion) and StarHub (S\$3.89 billion). (Market cap figures are as of June 30, 2005.)

"Committed to creating a pro-business environment, various Singapore agencies such as EDB and IE Singapore offer incentive schemes, which make it economically attractive for companies to establish regional bases here," the spokesman added.

"Companies who are interested to raise capital from an international financial market to fund growth as well as enhance their profile and branding among the international community can do so via the SGX."

Regional HQs

Companies are increasingly choosing Singapore as a regional base. "The Tax Free World Association, (TFWA) which represents the global duty free industry, picked Singapore for its regional office for several reasons," explains Chief Executive Andrew Ford. "The overriding factor was the

professionalism of the business and legal support available to the creation of TFWA's Asia base," he says.

"Equally important was the help received from Singapore's EDB and Singapore Tourism Board in the setting up of our office. Also taken into consideration were the ease of international accessibility, English as a main language, ease of transport within Singapore, low cost basis for office rental and necessary services, and the all round positive atmosphere."

The TFWA, which switched its annual Asia Pacific conference and exhibition from Hong Kong to Singapore, is one of many organizations which holds its annual regional gathering at the Singapore International Convention and Exhibition Center in Suntec City.

Focus for MICE

When it comes to Singapore being a premier location for MICE, Raffles International Hotels and Resorts thinks that for service, facilities, amenities and tailor-made concepts Singapore hotels can hold their own anywhere. Broadband, large workspaces and ergonomic chairs are the norm in business rooms as hotels upgrade and bend over backwards to attract business travelers.

Key Location

Singapore occupies a key location on major shipping and transportation routes. It lends itself to those seeking investments to and from Southeast Asia countries such as India, Indonesia, Thailand and Malaysia. With the growing importance of India, Singapore's role as a South and Southeast Asia hub is increasing.



This location has greatly facilitated the development of a major port facility. First came the long established state-owned Singapore port operator PSA, which was recently joined by the new contender, Port Tanjung Pelepas. Despite plenty of public antler-clashing, so far there seems to be room for both, as the PSA continues to release positive figures. Its terminals moved 11% more containers in the first four months of 2005 than a year earlier, as China's economic boom boosted trade, it announced recently.

The PSA handled 11.47m 20-foot equivalent units (TEUs) in the January-to-April period compared with 10.32m TEUs in the same period last year. The volume of TEUs moved through Singapore, the world's largest trans-shipment hub, increased 11.9% to 7.12m TEUs while movements at its overseas ports rose 9.8% to 4.35m TEUs.

Shipping Boom

"Soaring global trade, driven by China's rise as a manufacturing powerhouse, has created boom times for the shipping industry," according to a recent statement.

The PSA concedes that it now faces tough competition. "Freight rates recently hit record highs, although PSA faces increased competition from Malaysia, where port charges can be 30% lower," the PSA concedes.

But defending its corner, PSA, owned by government investment agency Temasek Holdings Pte. Ltd. says its Singapore port is more efficient than others, with faster turnaround times.

Port Rivals

The rival operation to PSA, the Port of Tanjung Pelepas was a project that was initiated in the early 1990s, when a second port in southern Malaysia, or Johor specifically, seemed necessary, explains PTP Chief Executive Officer, Mohd Sidik Shaik Osman.

The existing port on the eastern side of Johor at Pasir Gudang was heading towards capacity, he says.

Construction started in 1997 during the Asian financial crisis. "Many were skeptical as to the viability of a project as ambitious as PTP, due to the close proximity of the well established port in Singapore managed by PSA," he says. The decision was vindicated, he adds, when in August 2000, AP Moeller the parent company of Maersk Sealand, took a 30% stake in PTP and subsequently shifted their trans-shipment hub from Singapore to PTP.

This was the start of the rivalry between PTP and PSA. In August 2002 the stakes were raised when PTP secured a second main line customer, Evergreen Marine Corporation who also switched hubs from PSA to PTP. The emergence of PTP has resulted in more competitive handling charges while at the same time levels of productivity have also increased," he adds.

Award Winning Changi

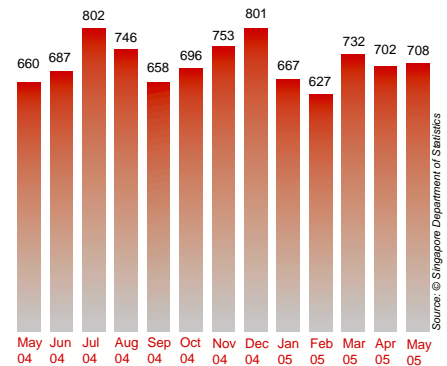
When it comes to a transport hub, few have won more accolades than Singapore's Changi airport, run by the innovative Civil Aviation Authority of Singapore. This is a transport icon in Asia-Pacific. Next year the CAAS will open the region's first dedicated low cost carrier terminal. Singapore Airlines,

as the launch customer for the super-jumbo Airbus A380, will be the first to fly the world's only double-decker aircraft. After a six-month delay, the inaugural A380 flight is now scheduled to take the kangaroo route from London to Sydney via Singapore in November 2006. Determined to make the passenger experience a memorable one, not only does the CAAS pledge the lowest airport prices, but offers the latest retail range, with its Nuance-Watson perfume and cosmetics shop famed as a launch pad for new products.

Tourism Push

This is just one example of how far Singapore will go to compete regionally. Its tourism business draws people from all over Asia-Pacific and being a multi-racial and multi-cultural society, most nationalities can make themselves understood. They are now looking to the emerging Mainland Chinese market for growth, and there can be little doubt that the casinos in the new integrated resorts are aimed at them. Singapore offers a diverse mix of tourist attractions. Having

Visitor Arrivals by Month
May 04 to May 05 ('000)



actively preserved its colonial buildings and heritage, it has visible historical landmarks. Tourist numbers, according to the Singapore Tourism Board, are well up this year, with May recording 709,000 visitors, an increase of 7.3% on the same month in 2004.

Gambling has never been allowed in Singapore, hence the controversy which has greeted the new, integrated resorts proposed for Marina Bay and Sentosa. They are part of a new tourism and investment-boosting concept, described by the Singapore Government as an iconic lifestyle development with a comprehensive range of world-class amenities. These may include hotels, convention facilities, retail and dining, entertainment shows, themed attractions and a casino. Most hotels welcome the new arrivals. "We will benefit from the expected increase in visitor arrivals, especially those with a higher propensity to spend. The integrated resort in Marina Bay, which is differentiated as a meetings and conventions venue, will be a welcome boost to the hotel," says Thierry Douin, area manager and general manager, Shangri-La Hotel Singapore.

Singapore is a hub for leading cruise line operator Star Cruises. The company is convinced the new casinos and integrated resorts will not threaten their onboard casino business. Gaming is just one of many options available and not all guests visit the casino onboard, Star Cruises insists, adding that more visitors means extra cruise business.

Property Recovery

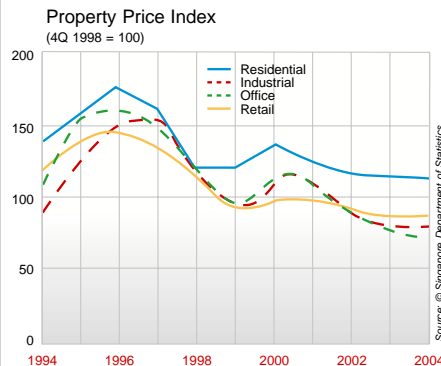
Investment opportunities in Singapore cover a wide range, from the new integrated resorts, to properties on the island of Sentosa. Buying units in the upmarket housing district of Sentosa Cove was made easier for foreigners last year by the introduction of a fast-tracked approval process.

The Singapore investment property market is recovering after lagging the region for some time. That's the verdict of Singapore-based Chris Reilly, manager of the Asia Pacific portfolio of the Henderson Horizon Global Property Equities Fund. "The residential sector in Singapore has stabilized after several years of decline and statistics suggest private home prices moving up modestly," he says.

Compared to Hong Kong and Shanghai and other major global markets such as the US, UK, Europe and Australia, home prices in Singapore offer good value. The new resorts and revamp of Orchard Road, the prime shopping area, will create investment spending, Reilly believes. "They will boost employment and drive tourist numbers, which will have a multiplier effect throughout the economy. The positive knock-on effect on sentiment should help the housing market."

On August 9, 2005, Singapore celebrates its 40th National Day. The country has come a long way from being a mere "Garden City." The Singapore Tourism Board slogan says it best: "Uniquely Singapore: A city like no other, A world of possibilities." ■

Written by Anna Healy Fenton.



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