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Foreign Direct Investment in Singapore, 1995–2005

By

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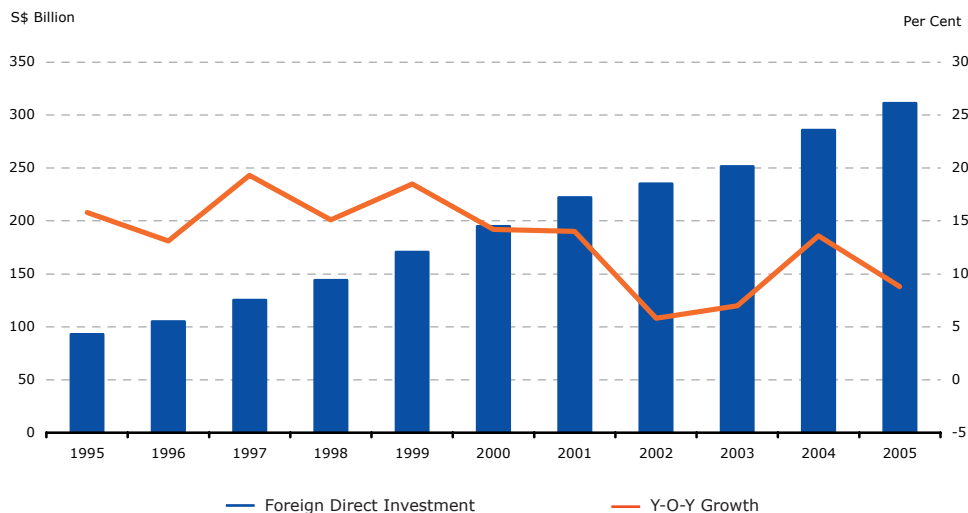
Introduction

This article analyses the trends in source and industrial composition of foreign direct investment (FDI)¹ in Singapore from 1995-2005. The data presented were compiled from the Survey of Financial Structure and Operations of Companies

(FSC)² conducted annually by the Singapore Department of Statistics.

Between 1995 and 2005, FDI stock in Singapore more than tripled from S\$93 billion to S\$311 billion, representing an average growth of 13 per cent per annum (Chart 1).

CHART 1 FDI IN SINGAPORE, 1995–2005
(Stock As At Year-End)



¹ Direct investment refers to investment made to establish a lasting interest in a domestic enterprise. The IMF Balance of Payments Manual, fifth edition (BPM5) recommends that investment exceeding 10 per cent equity interest be treated as direct investment. Direct investment stock comprises three components i.e. paid-up shares in affiliates, reserves attributed to the investor and net outstanding debt owed by the affiliates to their parent company.

² FSC covers companies incorporated or registered in Singapore, including branches of foreign companies.

FDI in Singapore by Region³

Europe, Asia and North America were important sources of FDI in Singapore (Chart 2). In 2005, these three regions accounted for 82 per cent of FDI stock in Singapore. From 1995 to 2005, Europe gained importance as Singapore's foreign investor, with its share increasing from 31 per cent to 43 per cent. In comparison, while FDI from North America and Asia had grown in absolute terms over the period, their shares had declined (North America: from 21 per cent to 15 per cent, Asia: from 33 per cent to 24 per cent).

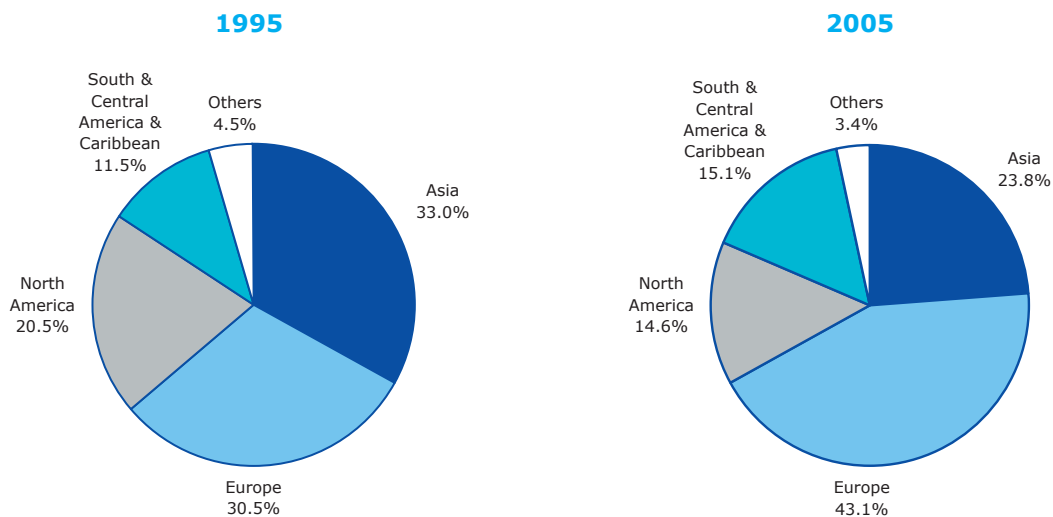
Europe

FDI stock from Europe amounted to S\$134 billion in 2005, nearly 5 times the value (S\$28 billion) in

1995 (Table 1). United Kingdom, the Netherlands and Switzerland were the top European investors in Singapore. Together, they accounted for more than three-quarters (77 per cent) of FDI stock from Europe. Compared with 1995, the share attributed to United Kingdom (34 per cent in 1995 vs 37 per cent in 2005) and the Netherlands (16 per cent in 1995 vs 24 per cent in 2005) had increased, while the share attributed to Switzerland (25 per cent in 1995 vs 16 per cent in 2005) had declined.

Norway and Germany also had significant FDI in Singapore. While Norway's share of European FDI stock in Singapore rose more than seven-fold from less than 1 per cent (0.7 per cent) in 1995 to 5.9 per cent in 2005, Germany's share declined from 6.7 per cent in 1995 to 5.6 per cent in 2005.

CHART 2 SOURCES OF FDI BY MAJOR GEOGRAPHICAL REGION, 1995 & 2005 (Stock As At Year-End)



³ Data on FDI source are compiled on the basis of immediate source rather than on ultimate source. For example, if an investor from country A invests in Singapore via country B, the investment will be recorded as from country B (immediate source) and not from country A (ultimate source).

TABLE 1 MAJOR INVESTOR COUNTRIES FROM EUROPE, 1995–2005
 (Stock As At Year-End)

	S\$ Billion					
	1995	1997	1999	2001	2003	2005
Europe	28.3 (100.0)	39.9 (100.0)	62.8 (100.0)	87.3 (100.0)	106.3 (100.0)	134.0 (100.0)
United Kingdom	9.7 (34.2)	14.0 (35.1)	11.9 (18.9)	14.7 (16.9)	39.4 (37.0)	50.2 (37.4)
Netherlands	4.6 (16.3)	7.2 (18.0)	22.9 (36.5)	35.9 (41.1)	27.6 (25.9)	31.7 (23.7)
Switzerland	7.2 (25.4)	10.5 (26.3)	15.7 (25.1)	15.7 (17.9)	16.9 (15.9)	21.7 (16.2)
Norway	0.2 (0.7)	0.6 (1.4)	1.6 (2.5)	3.9 (4.5)	4.7 (4.4)	7.9 (5.9)
Germany	1.9 (6.7)	1.8 (4.5)	2.3 (3.7)	6.4 (7.3)	6.2 (5.8)	7.6 (5.6)

() : Percentage figures in parenthesis refer to country/economy composition of FDI in Europe.

Asia

Asian FDI stock in Singapore more than doubled from S\$31 billion in 1995 to S\$74 billion in 2005 (Table 2). Japan was the top Asian investor in Singapore, contributing S\$41 billion in FDI stock in 2005. Its share of Asian FDI stock remained in the range of 56 – 60 per cent over the period 1995–2005.

Malaysia and Taiwan were the second and third most important investors from Asia, with FDI stock of S\$7.2 billion and S\$7.1 billion in 2005, respectively. There was a sharp increase in Taiwan's FDI stock,

from slightly less than S\$1 billion in 1995 to S\$7.1 billion in 2005. Correspondingly, Taiwan's share of Asian FDI increased from 3.1 per cent in 1995 to 9.7 per cent in 2005. While Malaysia's FDI stock had also increased from S\$3.9 billion to S\$7.2 billion over the same period, its share declined from 13 per cent to 9.7 per cent. Hong Kong was the second largest Asian foreign direct investor in Singapore in 1995 but it had since been overtaken by Malaysia and Taiwan. While the value of its FDI stock hovered in the range of S\$4–6 billion during the period 1995–2005, its share of Asian FDI stock fell from 15 per cent to 6.6 per cent.

 TABLE 2 MAJOR INVESTOR COUNTRIES/REGIONS FROM ASIA, 1995–2005
 (Stock As At Year-End)

	S\$ Billion					
	1995	1997	1999	2001	2003	2005
Asia	30.7 (100.0)	36.4 (100.0)	47.8 (100.0)	52.0 (100.0)	58.4 (100.0)	74.0 (100.0)
Japan	18.0 (58.8)	21.3 (58.6)	28.6 (59.9)	30.0 (57.6)	34.0 (58.1)	41.1 (55.6)
Malaysia	3.9 (12.7)	5.2 (14.3)	6.4 (13.3)	6.0 (11.6)	4.6 (7.8)	7.2 (9.7)
Taiwan	0.9 (3.1)	1.8 (5.0)	3.1 (6.4)	4.8 (9.1)	5.9 (10.1)	7.1 (9.7)
Hong Kong	4.6 (15.1)	4.8 (13.1)	4.9 (10.2)	5.8 (11.2)	4.1 (6.9)	4.9 (6.6)

() : Percentage figures in parenthesis refer to country/economy composition of FDI in Asia.

North America

FDI stock from North America amounted to S\$45 billion in 2005, more than double the value of S\$19 billion in 1995 (Table 3). US was the top North American investor with its value of FDI stock increasing from S\$16 billion to S\$43 billion over the ten-year period.

FDI in Singapore by Industrial Sector

FDI in Singapore were concentrated in financial & insurance services (which include investment holding companies), manufacturing, and wholesale & retail trade, hotels & restaurants (Table 4). Together, these three sectors accounted for close to 90 per cent (87 per cent) of total FDI stock in Singapore in 2005.

Between 1995 and 2005, the share of FDI stock in wholesale & retail trade, hotels & restaurants rose from 13 per cent to 16 per cent, whilst that for manufacturing sector declined from 38 per cent to 33 per cent. The share attributed to financial & insurance services increased marginally from 37 per cent to 38 per cent.

FDI in transport & storage, information & communications, and professional & technical, administrative & support services had gained importance over the years. For the transport & storage sector, its share of FDI grew from 3.1 per cent in 1995 to 5.4 per cent in 2005. Similarly, the shares of FDI also increased during the same period for information & communications (from 0.6 per cent to 1.1 per cent) and professional & technical, administrative & support services (from 1.7 per cent to 3.1 per cent).

TABLE 3 MAJOR INVESTOR COUNTRY FROM NORTH AMERICA, 1995–2005
(Stock As At Year-End)

	S\$ Billion					
	1995	1997	1999	2001	2003	2005
North America	19.1 (100.0)	27.2 (100.0)	29.0 (100.0)	40.4 (100.0)	40.3 (100.0)	45.3 (100.0)
US	16.2 (84.9)	23.5 (86.4)	24.8 (85.6)	37.2 (92.1)	37.7 (93.5)	42.8 (94.3)

() : Percentage figures in parenthesis refer to country/economy composition of FDI in North America.

TABLE 4 PERCENTAGE DISTRIBUTION OF FDI BY INDUSTRY, 1995 & 2005
(Stock As At Year-End)

	Per Cent	
	1995	2005
Total	100.0	100.0
Financial & Insurance Services	37.3	38.3
Manufacturing	38.2	33.3
Wholesale & Retail Trade, Hotels & Restaurants	13.2	15.7
Transport & Storage	3.1	5.4
Professional & Technical, Administrative & Support Services	1.7	3.1
Real Estate, Rental & Leasing Services	4.7	2.6
Information & Communications	0.6	1.1

Financial & Insurance Services

The FDI stock in financial & insurance services more than tripled from S\$35 billion in 1995 to S\$119 billion in 2005 (Table 5). Increasingly, foreign investors are using holding companies as investment vehicles. As a result, FDI in holding companies increased from S\$20 billion in 1995 to S\$94 billion in 2005. Its corresponding share of FDI stock in financial & insurance services also expanded steadily from 58 per cent to 79 per cent.

Manufacturing

FDI stock in manufacturing rose strongly from S\$36 billion in 1995 to

S\$104 billion in 2005. The top three manufacturing industries which attracted the highest amount of FDI in 2005 were pharmaceuticals (S\$39 billion), electronics (S\$29 billion) and petroleum (S\$14 billion) (Table 6). Pharmaceuticals' share of FDI stock in manufacturing rose from 8.3 per cent in 1995 to 37 per cent in 2005. The strong growth in pharmaceuticals FDI stock in more recent years was mainly attributed to the accumulation in reserves (from retained surpluses) resulting from healthy profits registered by such companies. In contrast, electronics' share declined from 49 per cent to 28 per cent, although in absolute terms, its FDI stock of S\$29 billion in 2005 was higher than S\$18 billion in 1995.

TABLE 5 FDI IN FINANCIAL & INSURANCE SERVICES SECTOR, 1995–2005
(Stock As At Year-End)

	S\$ Billion					
	1995	1997	1999	2001	2003	2005
Financial & Insurance Services	34.7 (100.0)	47.2 (100.0)	66.4 (100.0)	81.0 (100.0)	89.6 (100.0)	119.1 (100.0)
Investment Holding Companies	20.1 (57.9)	34.1 (72.3)	50.1 (75.4)	61.9 (76.5)	69.1 (77.1)	94.4 (79.2)
Banks	8.7 (25.0)	8.1 (17.2)	8.4 (12.6)	8.8 (10.8)	9.0 (10.0)	9.0 (7.6)

() : Percentage figures in parenthesis refer to sub-sectoral composition of FDI in the financial & insurance services sector.

TABLE 6 FDI IN MANUFACTURING SECTOR, 1995–2005
(Stock As At Year-End)

	S\$ Billion					
	1995	1997	1999	2001	2003	2005
Manufacturing	35.5 (100.0)	47.2 (100.0)	56.9 (100.0)	81.9 (100.0)	91.7 (100.0)	103.6 (100.0)
Pharmaceuticals	3.0 (8.3)	6.6 (14.1)	11.4 (20.1)	18.1 (22.1)	29.3 (32.0)	38.7 (37.3)
Electronics	17.5 (49.2)	23.6 (50.0)	28.1 (49.3)	36.0 (44.0)	29.7 (32.3)	29.2 (28.1)
Petroleum	3.5 (9.9)	3.6 (7.7)	5.0 (8.7)	12.3 (15.0)	13.6 (14.9)	14.0 (13.5)

() : Percentage figures in parenthesis refer to sub-sectoral composition of FDI in the manufacturing sector.

Wholesale & Retail Trade, Hotels & Restaurants

Between 1995 and 2005, the FDI stock in wholesale & retail trade, hotels & restaurants quadrupled from S\$12 billion in 1995 to reach S\$49 billion. The wholesale trade industry accounted for the bulk of FDI stock in the sector and its share increased further from 89 per cent in 1995 to 94 per cent in 2005 (Table 7). This reflected Singapore’s attractiveness to foreign investors as a trading hub.

Conclusion

Singapore’s FDI stock had registered healthy growths between 1995 and 2005. Among the top investors, Europe had garnered higher share of FDI compared to Asia and North America. FDI has become more diversified, with wholesale & retail trade, hotels & restaurants, transport & storage, information & communications, and professional & technical, administrative & support sectors accounting for a bigger share. Within the manufacturing sector, pharmaceuticals emerged as the top industry for FDI.

TABLE 7 FDI IN WHOLESALE & RETAIL TRADE, HOTELS & RESTAURANTS, 1995–2005 (Stock As At Year-End)

	S\$ Billion					
	1995	1997	1999	2001	2003	2005
Wholesale & Retail Trade, Hotels & Restaurants	12.2	15.2	28.0	34.1	40.1	48.8
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Wholesale Trade	10.9	13.7	24.8	30.5	36.7	45.8
	(88.7)	(90.4)	(88.5)	(89.3)	(91.5)	(93.9)

() : Percentage figures in parenthesis refer to sub-sectoral composition of FDI in the wholesale & retail trade, hotels & restaurants sector.

The latest report on *Foreign Equity Investment in Singapore 2005* contains key findings of the Survey of Financial Structure and Operations of Companies carried out in 2006/07 for reference year 2005. The report is available for free downloading from the SingStat website at

<http://www.singstat.gov.sg/pubn/business.html#fei>

Latest data on Singapore’s overseas investment are available in the report on *Singapore’s Investment Abroad 2005*, which contains key findings of the Survey of Singapore’s Investment Abroad carried out in 2006/07 for reference year 2005. More information on this publication is posted on the SingStat website at

<http://www.singstat.gov.sg/pubn/business.html#sia>