
Recommendations by the Services Sub Committee -
WORKING GROUP ON TRADING
Sept 2002

**DEVELOPING
SINGAPORE INTO A GLOBAL TRADE HUB**

AIM

1. This paper evaluates our development as a trade hub and the potential of developing Singapore into a Global Trade Hub. It highlights existing impediments and proposes recommendations to propel Singapore going forward.

BACKGROUND

2. The international trading sector was identified as one of the services sectors to be promoted by the 1985 Economic Committee. International trading has long been recognised as Singapore's lifeblood for its economic contribution and for its significant multiplier effect on sectors such as finance and logistics.

3. The strategic value of international trading and role of traders has evolved over time. Traders are no longer pure intermediaries operating with basic knowledge of customers, suppliers and products. International trading creates tremendous economic value through engaging in knowledge-intensive activities such as risk management, market research and trade finance. **(Annex 1)**

Singapore as a Trade Hub – Where We Are Today

4. The Approved Oil Trader (AOT) and the Approved International Trader (AIT) programmes were introduced in 1989 and 1990¹, respectively. The objective of the programmes is to expand the potential of Singapore as an entrepot port and to encourage companies to use Singapore as a base to conduct their offshore trading activities for the region.

5. To date, a critical mass of leading international trading companies have been attracted to conduct offshore trading activities in Singapore under these programmes. We now have a diverse pool of companies specialising in energy, metals, agri-commodities, consumer and industrial products trading. As a reflection of the success of the programmes, offshore trade posted rapid growth averaging about 15% compounded annual growth rate in the past

¹ The AIT and AOT programmes have been merged with effect from 1 June 2001 to form the Global Trader Programme (GTP). Companies under the programme enjoy a concessionary tax rate on offshore trading activities in approved commodities and products.

decade. Offshore trade has also grown at a rate on par with that of Hong Kong since 1986. Hong Kong's zero tax rate on offshore trading activities and a large and rapidly growing hinterland in China also make it an attractive trade hub.

6. The economic contribution of the offshore trading sector can be seen from its 1.4% contribution to GDP. It has created high paying jobs for Singaporeans. Average remuneration of an employee in the offshore trade sector is almost 2 times higher than that of an employee in the wholesale trade. In 2001, the AIT/AOT companies generated above US\$100 billion in offshore trade, incurred total business spending exceeding S\$2 billion in Singapore and employed more than 3000 personnel.

SINGAPORE'S COMPETITIVE ADVANTAGES & WEAKNESSES

7. Singapore's **competitive advantages** make it well placed to become a global trade hub:

- **Attractive Trade Infrastructure.**

Singapore's top rated infrastructure in air, sea, land, telecommunications, finance, trade facilitation and documentation is particularly attractive to global traders.

- **Good Business & Physical Connectivity.**

Our geographical location positions us well to complete the 24-hour trading cycle, complementing key trade hubs such as London and New York.

- **Reputation as Oil Trading Hub.**

Singapore is the world's 3rd largest oil refining and trading centre. In addition to it being the oil price determination centre in the region, Singapore also has an active over-the-counter (OTC) oil market.

- **Credibility and Reputation of Singapore Inc.**

Singapore's strong brand name as a reputable business hub allows traders here to enjoy high credibility as counter-parties in transactions.

- **Cosmopolitan, Open and Safe Social Environment.**

In addition to our high quality of life, Singapore also offers a cosmopolitan, open and safe environment for global traders to work and live in. Our ethnic mix helps create understanding and

openness that is critical for face to face dealings in international trade and commerce.

- **Stable Political and Pro-Business Environment.**

Our stable political and pro-business environment is well regarded by global traders.

8. However, there are some impediments.

- **Limited Access to Capital.**

Smaller players have limited access to capital, trade finance and export credit insurance facilities. This could constrain their ability to broaden their customers and product base and expand into new markets.

- **Small Pool of Local Trading Professionals.**

Singapore has a small pool of local trading talent and hence may not be able to readily meet the needs of international trading companies.

- **Relatively High Cost Base.**

Singapore's relatively high cost base (e.g. land rental and wages) may put us at a disadvantage vis-a-vis other low cost locations.

CHALLENGES AHEAD

9. Singapore faces **mounting competition** globally. International trading is a highly mobile and tax sensitive industry. Although Singapore has flourished as a trade hub, it is not a natural trade hub as it is neither a key producer nor consumer market. It is certain that as countries around us build their own infrastructure and network, Singapore will be faced with greater competition.

10. This is further accentuated with the availability of various **incentives offered by other locations**. Globally, there is a downward trend in tax rates levied on offshore trade activities. This implies that lower offshore tax rates are fast becoming basic pre-conditions and not incentives per se for trade hubs to thrive.

11. **Direct trade** is expected to increase, especially as infrastructure at source markets improves and information on products and markets become more transparent and readily available. Singapore's role as a trade hub and

intermediary will be reduced if we do not provide incremental value to our clients. For example, with China's entry into WTO, and its gradual market liberalisation, companies would be motivated to establish direct and significant presence within China to serve the huge market, instead of using Singapore as a base.

SWOT ANALYSIS

12. A SWOT analysis on Singapore's International Trading sector is as follows:

Strengths	Weaknesses
<ul style="list-style-type: none"> ◆ Attractive trade infrastructure ◆ Good business and physical connectivity ◆ Reputation as Oil Trading Hub ◆ Credibility and Reputation of Singapore Inc ◆ Cosmopolitan, open and safe social environment ◆ Stable political and pro-business environment 	<ul style="list-style-type: none"> ◆ Small pool of local trading professionals ◆ Relatively high cost base (e.g land rental and wages) ◆ Limited access to capital and export credit insurance facilities
Opportunities	Threats
<ul style="list-style-type: none"> ◆ Internationalising enterprises looking for a regional base ◆ Liberalisation in Asia and the increased demand for risk management 	<ul style="list-style-type: none"> ◆ Availability of incentives offered by other locations ◆ Increase in direct trade

VISION- SINGAPORE AS A GLOBAL TRADE HUB

13. Singapore has grown in the past decade and gained recognition as a reputable trade hub with its substantial pool of international players and efficient supporting trade infrastructure. Moving ahead, Singapore is well positioned to build on this foundation and move into the next league.

14. Our vision is:

To Develop Singapore into A Global Trade Hub

The Global Trade Hub will encompass a vibrant international trading cluster offering strategic access to international markets and excellent trade infrastructure, thereby achieving economic growth for Singapore.

15. To achieve our proposed vision, we must adopt a two-pronged approach:

- To create an enabling environment by putting in place all the necessary trade infrastructure and pillars required for a Global Trade Hub;
- To develop our position as a Global Trade Hub by building new engines of growth to achieve economic expansion for Singapore.

16. An enabling environment refers to one that has comprehensive trade infrastructure and services that support the trading companies in their operations and expansion. Key enablers² that will propel our growth are:

- Favorable business environment;
- Access to talent pool;
- Efficient infrastructure;
- Access to markets;
- Access to capital

17. As we enhance our trade enabling environment, our ability to attract and anchor more trading companies is strengthened. These will be the engines of growth that enlarge our trading cluster and entrench our position as a Global Trade Hub. A bigger and more developed cluster will boast of a diverse mix of trading companies of different nature, size, profile and country of origin as well as trade related ancillary service providers.

² A survey conducted among the GTP companies, revealed the following ranking of enablers:
(1) Business Environment (i.e. government regulation, fiscal incentives and cost of business);
(2) Talent Pool (i.e. availability of expertise and training facilities);
(3) Infrastructure (i.e. logistics, communications, trade infrastructure and services);
(4) Access to Supplies/Markets (i.e. bilateral ties and FTAs, physical proximity to markets)

STRATEGIC INITIATIVES

Strategic Thrust 1: Create a Favorable Business and Policy Climate

18. A pro-business and favorable policy climate is of utmost importance to facilitate the growth of trading companies. Specifically, cost competitiveness and a favorable tax regime will create a pro-business climate and provide the pre-condition to make Singapore an attractive location as a trading base.

Recommendation 1i: Enhance the Global Trader Programme

19. Whilst Singapore has seen phenomenal growth in offshore trade activities since the inception of the Global Trader Programme (GTP), we must review the attractiveness of the programme. As Singapore faces mounting competition from other trading locations, it is necessary to review the competitiveness and relevance of the GTP. Singapore must respond vigorously to such global trends and move quickly to stay ahead.

Recommendation 1ii: Attract Promising Enterprises

20. As economies industrialise and develop, a strong pool of high growth enterprises is critical as an active contributor in expanding its domestic and external economic growth. These promising enterprises are encouraged to internationalise and to grow global. Singapore could make itself a natural home base for internationalising enterprises, which are seeking to establish a global or regional network within Asia or emanating from Asia and to the rest of the world.

21. It is proposed that Singapore should create a strong and vibrant enterprise development environment to attract these promising enterprises. Through this strategic initiative, we will be able to lock in promising enterprises today, who will become tomorrow's "global trading majors". This will allow Singapore to develop trading enterprises along the entire enterprise continuum, including small, emerging and large trading enterprises.

Strategic Thrust 2: Strengthen Value Proposition as a Risk Management Hub for Derivatives Trading

22. Although Singapore is the 3rd largest trading centre (after London and Houston) for physical oil, its oil futures volume is a distant third in comparison with the New York Mercantile Exchange (NYMEX) and the International Petroleum Exchange (IPE). Development of the derivatives market in Asia has been constrained by the protected oil markets in the region.

23. However, prospects for derivatives in the Asian region have brightened considerably since the Asian financial crisis. Not only are companies more aware of the need for improved risk management, regional governments are also actively promoting the capital markets. In addition, the trend towards market and industry liberalization in Asia, and the resulting price volatility and risk, would further spur the demand for more sophisticated risk management tools. Indeed, industry players believe there is great potential for derivatives trading activities to increase manifold in the region in the coming years.

24. The growth in the global derivatives market and industry liberalisation in Asia presents opportunities for Singapore to develop into a risk management hub. Singapore is well positioned to leverage on these opportunities with its pool of international trading companies and active OTC market for oil trading. We need to strengthen our existing infrastructure and enhance Singapore's attractiveness as a risk management hub to build a vibrant derivatives market.

Recommendation 2i: Encourage Derivatives Trading Activities

25. An active derivatives market must have a cluster of core players comprising financial institutions, private investors and end consumers (e.g. Singapore Airlines who wants to hedge exposure to oil prices) to ensure sufficient liquidity. Singapore should therefore encourage more derivatives trading activities among its trading companies by ensuring a favourable business regime. This will encourage the growth of the derivatives market and thus enhance Singapore's position as a risk management hub.

Recommendation 2ii: Create A Stronger Singapore Based Exchange

26. The globalisation of markets and technological advances dictate that liquidity will go into exchanges where there are greater efficiencies and lower trading costs. In Europe and US, alternative trading systems have made inroads into the turf of traditional exchanges. Mergers and alliances are also being formed among exchanges around the world. It is proposed that Singapore should have a strong broad-based exchange with a powerful brand name, offering all types of derivatives and securities trading opportunities and expertise under one roof.

Recommendation 2iii: Create New/Niche Product Offerings on Exchange

27. Singapore should build on its existing infrastructure and brand name to create niche product offerings in our exchange. This could be pursued via strategic alliances with successful exchanges (co-listing). An example is the Middle East Crude Oil Index Futures, which SGX will be launching in co-operation with the Tokyo Commodity Exchange.

Strategic Thrust 3: Develop the Energy Sector as an Engine of Growth

28. In the past decade, Singapore has become the 3rd largest oil trading centre in the world, behind London and Houston. Oil companies with international strategy tend to base in London, Houston and Singapore to complete a 24 hour trading cycle. Our success as a regional oil trading centre can be mainly attributed to our large refining base and the introduction of the Approved Oil Trader programme in 1989.

29. There are numerous opportunities for us to surpass our achievements thus far. Deregulation in the oil and energy sectors in many markets (e.g. Japan, Indonesia) and the high energy consumption in Asia (Asia will account for 50% of world energy growth) create opportunities for Singapore to grow as an energy hub. Leveraging on our reputation as a major oil physical hub, Singapore is well positioned to develop a vibrant risk management hub for the oil sector (See Strategic Thrust 2). Singapore should also aim to maintain our

current competitiveness while at the same time build new areas of growth and expertise.

Recommendation 3i: Lease Excess Refining Capacity

30. Refineries in Asia are plagued with excess capacity and low refining margins. This is due to the high crude oil prices and the sharp slowdowns in demand due to the current economic environment. The situation is exacerbated by the fast expansion of refining capacity by the Asian and Middle East countries who were led by the strong demand and profitability experienced in the mid-1990s and the drive to industrialise their countries. This led to a “refining glut” in Asia and a lagging demand.

31. As a result, Singapore is faced with a situation of excess refining capacity. Refineries are running at a loss. In the long run, oil majors may not find it viable to locate these asset-intensive projects in Singapore. It is proposed that regional countries, which are in need of refining capacity, lease the excess refining capacity from the Singapore refiners. Singapore government can facilitate the process via inter-government agreements with these countries.

Recommendation 3ii: Develop Singapore’s Gas Sector

32. Gas looks set to be the energy source for the future. It is a relatively untapped source and it is a cheap and environmentally friendly alternative to oil. Supply of natural gas is normally limited to within domestic boundaries as it is risky and expensive to transport. However, this is set to change in Asia following the initiative to build a Trans Asean Gas Pipeline (TAGP)³. With the set up of the ASEAN pipeline and the imminent liberalisation of the gas sector, gas demand will increase significantly. Industry players have estimated that gas demand in Asia is growing at 8% annually.

33. Gas will be an important source of energy to Singapore. It is estimated that half of Singapore’s future electricity needs will be powered by imported natural gas by 2004. In fact, Singapore is the largest buyer on the TAGP market. It is proposed that Singapore should leverage on our role as a major gas buyer and our key advantages as a major oil trading hub to participate in the upstream and midstream activities in the gas sector. There are significant

³ Driven by ASEAN Council On Petroleum (ASCOPE)

economic and strategic benefits to Singapore if we can successfully leverage on this opportunity.

Strategic Thrust 4: Provide Competitive & Affordable Trade Infrastructure

34. The availability and effectiveness of trade infrastructure, comprising physical infrastructure and trade services, is a strong influence on the competitiveness of trade hubs. Increasingly, regional hubs are building up their physical infrastructure, particularly in the areas of port facilities (air and sea), telecommunications and finance services. Since physical infrastructure can be easily replicated and emulated, Singapore has to differentiate itself by continually improving the quality and cost-competitiveness of our offering of trade services such as legal and arbitration.

Recommendation 4i: Promote Singapore as the Regional Legal and Arbitration Centre for Trade

35. Singapore has the prerequisites to develop itself into a regional legal and arbitration centre for trade⁴. Its neutrality (being neither a major producing or consuming nation) and its impartial and efficient judiciary system, give it strong credibility as an arbitration centre. In addition, Singapore also has a pool of experienced and respected traders, with some having prior arbitration experience abroad.

36. Despite the high volume of trades negotiated in the Asian region, a substantial number of trade arbitration cases is still handled in London, New York, Geneva and Paris. Arbitration done abroad increases business costs (both monetary and time taken) for Singapore-based trading companies. Establishing Singapore as a regional arbitration centre for commodities would reduce the business costs for these trading companies. This recommendation is also in line with the recommendations made by the Legal Services Working Group to promote Singapore as a regional alternative dispute resolution service centre.

⁴ SICOM (in Singapore) is a major arbitration body for rubber trades in the region.

Recommendation 4ii: Develop Singapore's Export Credit Insurance Capacity and Capability

37. Credit insurance is an important enabling factor for trading enterprises (particularly for the smaller and less established ones). The trend is moving from the letter of credit form to the less tedious open account format. However, open accounts expose traders to a higher risk of default from customers. To mitigate this risk, trade on open account terms is often accompanied by the use of credit insurance. This added assurance is an effective tool for better portfolio risk management and allows trading companies to conduct more trades as they foray into new markets.

38. In addition, credit insurance also enhances the credit risk position of trading enterprises, as banks are more willing to lend, with the knowledge that loans can be recovered (in the event of default) from the credit insurance providers. There is hence a need for Singapore's credit insurance sector to be brought on par with other hubs such as Hong Kong⁵, in terms of availability, level of coverage and price competitiveness.

Strategic Thrust 5: Provide Access to Smart Capital

39. To develop the trading enterprise ecosystem, we need to support the needs of diverse companies at different growth stages by providing a broad range of sophisticated financial and capital markets. Smaller trading enterprises commonly experience difficulties in seeking traditional bank finance due to their asset light business structure. This lack of support inhibits the expansion of the trading enterprises.

40. Providing easy access to sources of smart capital (e.g. debt capital and equity capital) would provide trading enterprises with an alternative to banks and other traditional sources of financing. The development of Singapore's capital markets would also serve as a magnet to attract promising enterprises from liberalising economies, as we become a preferred location to raise funds for business development.

⁵ Hong Kong Export Credit Insurance Corporation (HKECIC) provides a wide range of credit insurance products with competitive pricing and swift on-line credit assessment.

Recommendation 5i: Set Up a Discover Singapore Gazelle Fund

41. It is proposed that a “Discover Singapore Gazelle Fund” be set up to co-invest in growth champions or gazelles in the international trading sector with capital injection from public and private sectors. These companies must be profitable, with established cash flow, a good growth track record, clear business plans and a firm home base in Singapore. Investment to gazelles in the trading sector would be individually and commercially evaluated by the fund manager and could be capped. This programme will help to secure funding for trading enterprises to develop into global champions.

Recommendation 5ii: Further Develop and Deepen Singapore’s Corporate Bond Market

42. Singapore already possesses the institutional pre-requisites to develop a vibrant corporate bond market. Its robust financial and legal infrastructure ensures protection of creditor rights, high corporate governance, adherence to disclosure standards, reliable rating services and stringent rule of law. The incentives introduced by MAS in recent years to promote the debt market have already yielded positive results⁶.

43. Corporate bonds can potentially provide trading enterprises with greater flexibility and lower cost of finances, with their longer repayment periods. We must therefore continue to develop and deepen Singapore’s corporate debt market by broadening the base of corporate bond market players, encouraging participation in the corporate bond market and facilitating the trading of bonds and debts.

Strategic Thrust 6: Attract, Develop and Retain Trading Talent

44. Human capital has gained importance as a competitive differentiator. We must develop a critical mass of trading talent and expertise to meet existing and future industry needs and improve the quality of our trading

⁶ The value of outstanding debt securities (including statutory boards) has surged by 80% from 1999 to 2001, raising the ratio of outstanding bonds to 88% of GDP in 2001. The liquidity of government bonds has also increased with the percentage of outstanding bonds traded per day in 2001 more than double that in 1999.

workforce through capability development and broader human capital enhancement.

45. Singapore has a small pool of trading professionals, hence foreign trading talent forms a large part of Singapore's trading backbone. Trading is also perceived as a risky profession and is not generally regarded as an attractive career option to many local graduates.

46. Given the international nature of the business, the diverse knowledge, expertise and network of foreign talent will remain essential. Like MNCs, multi-national talent or MNTs, will inject new ideas and provide global connections. In this regard, Singapore must continue to enhance our recruitment policy and infrastructure to ensure talent attraction and retention. However, it is also important that Singapore builds its own pool of talent. The long-term challenge is to educate a new breed of individuals with the right caliber i.e. with entrepreneurial spirit and the ability to take risk.

Recommendation 6i: Upskill and Revitalise the Trading Sector –

Becoming the Regional Training Centre for International Trading

47. Singapore could be positioned as a regional training hub for executive education for Singapore and the region. Presently, training for the trading industry is mostly on-the-job. It is proposed that elective courses on trade related topics such as trade finance, trade research, trade laws and risk management be introduced in undergraduate and postgraduate degree programmes. In addition, specialised courses for professionals seeking to upgrade could also be provided by relevant institutions.

48. The aim is to create an intellectual hub and repository of trading knowledge, talent and capabilities through formal training to new entrants and imparting current skills and knowledge to experienced trading professionals. The provision of formal and recognised courses at the tertiary level will inject a sense of professionalism and help create a better image of trading as a profession.

Recommendation 6ii: Launch 2 year Internship Programme with GTP Companies

49. Trading companies prefer to recruit experienced personnel who can contribute immediately to the bottom line. This creates a high entry barrier to aspiring fresh graduates or other personnel from other industries.

50. GTP companies, as the key stakeholders of the cluster, could be encouraged to participate in building our human capital via an internship programme. It is proposed that established GTP companies offer a 2-year internship programme to prospective aspirants. The internship could be offered to graduates who have taken trade related elective courses (as proposed in para 46) and professionals from the financial sector who already possess pre-requisite knowledge in trade finance and risk management, but lack the practical experience.

51. This not only allows us to train our local workforce according to best international trade practices with leading trading companies from over the world, it also allows us to institutionalise a systematic transfer of knowledge into our local workforce. In future, other financial institutions such as commodity banks with similar experience and requirement for trading expertise could also participate.

Recommendation 6iii: Increase Training Resources and Strengthen Government Support

52. A 2001 NUS study commissioned by IE Singapore showed that the training to payroll ratio for traders is only 0.75%, way below the national average of 3%.

53. To encourage the sector to revitalise itself via training, it is proposed that the skill development initiatives for training executive and backroom staff be co-funded by the government. This could be supported via the Skills Re-Development Programme⁷ (SRP) that seeks to upgrade the skills of the industry to meeting its changing needs. It is proposed that SRP be extended to support training for trading executive.

⁷ In order to be eligible, the employees should earn \$1500 and below, and/or have 'A' level qualifications and below.

EXPANDING OUR ECONOMIC SPACE - THE BENEFITS

54. The successful implementation of the above recommendations will enable the offshore trade sector to grow in stature and importance. In a decade, it is estimated that the international trading cluster will contribute to Singapore's economy in the following ways:

55. **Share of World Trade.** The size of Singapore's offshore trade is expected to triple from about US\$100 billion to US\$300-400 billion. It is projected that Singapore could enlarge its share of world trade from 1.1% to 1.5%.

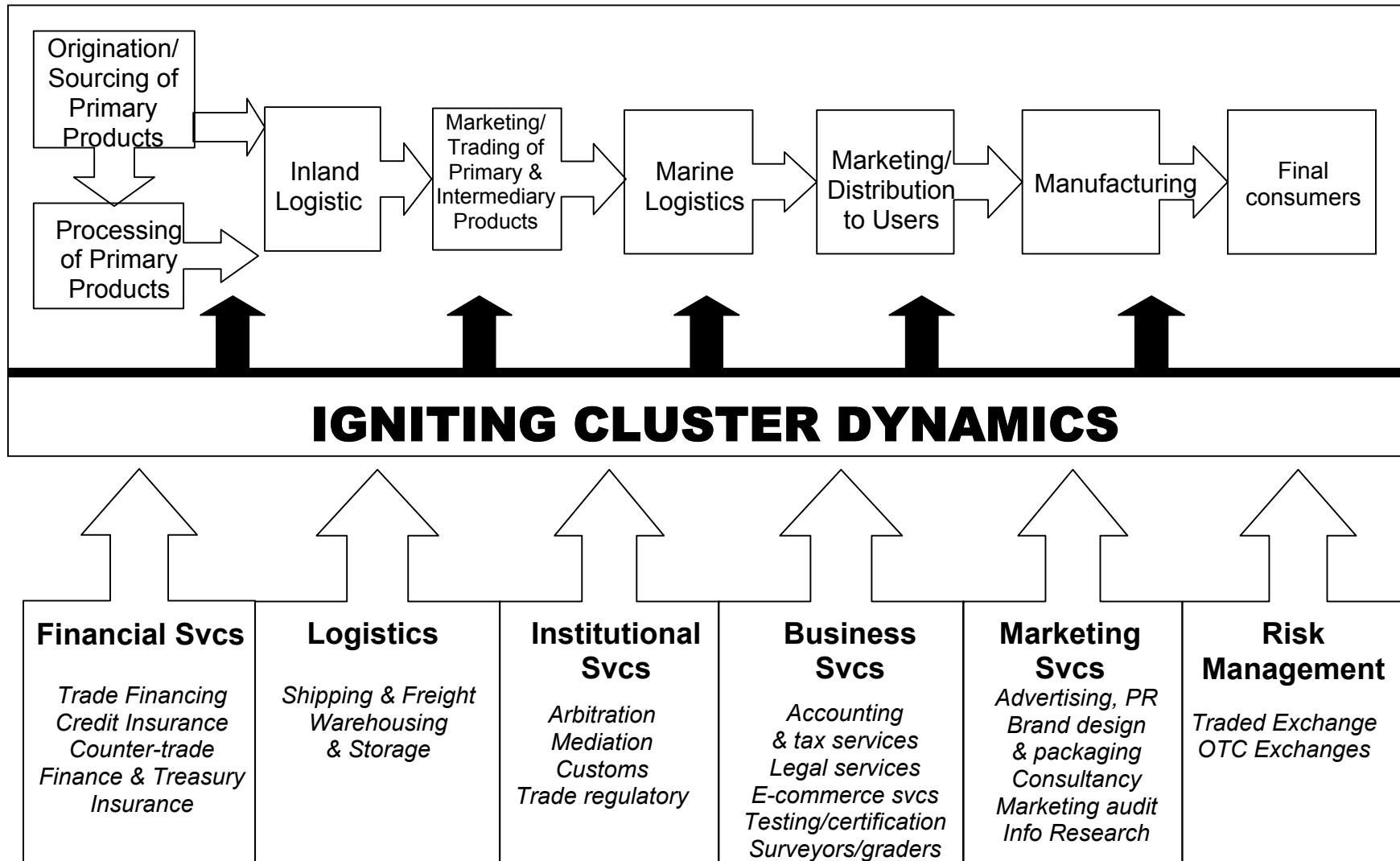
56. **Share of GDP.** With the increase in the size of Singapore's offshore trade, the offshore trade sector is also expected to play a more important role to Singapore's economy. The direct contribution to GDP by offshore trade is expected to increase from 1.4% of Singapore's GDP to 1.7%-2.3%.

Economic Contribution Projections

Indicators	Current	Achieving Our Vision
Offshore Trade (US\$)	100B	300-400 B
- Share of World Trade (%)	1.1	1.1-1.5
Contribution to GDP (%)	1.4	1.7-2.3

CONCLUSION

57. The international trading sector has recorded significant growth in the last decade. The past strategies have enabled us to develop into an attractive regional trade hub. However, faced with a shift in global markets and intensifying competition, we must respond vigorously and be quick to capitalise on new developments. Singapore has the necessary preconditions and determination to compete in the global league. Our regional trade hub position has given us a head start. Reinventing ourselves through the proposed new growth impetus, we can measure up to the challenges ahead and emerge as a Global Trade Hub.



Supporting Infrastructure

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