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ASEAN-Japan Centre

**Non-equity Modes of Trade in Singapore
seen to promote financial technology, data centers, and biopharmaceutical industries
in the time of pandemic according to the study by ASEAN-Japan Centre**



“Non-Equity Modes of Trade in ASEAN” on Singapore is available for download on AJC website

ASEAN-Japan Centre (AJC) issued the paper 8 of the “Non-Equity Modes of Trade in ASEAN: Promoting New Forms of Trade between Japan and ASEAN” series focusing on Singapore in July 2021. According to the paper, non-equity modes (NEMs) of trade in Singapore complement foreign direct investments (FDIs) through positive network effects that create a strong feedback loop between NEMs and FDI. Singapore receives some of the world’s largest amounts of FDI with more than S\$1.5 trillion FDI stocks in 2018. Transnational companies (TNCs) enjoy Singapore’s business-friendly environment, supportive government policies, strong intellectual property regime, and strategic geographical location, which create a strong ecosystem and make Singapore a robust export hub to the rest of the world.

NEMs in Singapore are prevalent in new industries that require high technology. The paper identifies and focuses on the following five modalities and industries: subcontracting in electronics and supply chain management, licensing in pharmaceutical companies, franchising in food and beverage industries, management contracts in hotels, and leasing in data centers. The paper shows that NEMs include both TNCs and local small and medium enterprises (SMEs). For example, in contract manufacturing of pharmaceutical products, GlaxoSmithKline (GSK) a TNC, and Beacons, a local SME are both engaged in NEMs trade. Subway, a large US fast-food restaurant, and Ya Kun Kaya Toast, a local SME are also both active in franchising in the country and abroad.

Singapore aims to become a global hub for businesses and has established strategies to drive the growth and transformation of its economy. In the electronics industry, the government developed a skills framework for continual learning with two career pathways for management and technicians and engineers. Companies are also encouraged to adopt robotics and automation and provide incentives for high value-added manufacturing. The Industry Transformation Map for electronics is seen to support the growth of NEMs by enhancing the skills of workers, increasing productivity and encouraging innovation. The Singaporean government also offers financial support for continuous learning through the SkillsFuture which provides a starting credit of S\$500 to young professionals and mid-career professionals to learn

new skills. These initiatives seek to help workers develop new capabilities and support the growth of NEMs in new industries.

Despite the relative favorability of Singapore for FDIs and NEMs, there remains some room for improvement. As the cost of labor and living in Singapore is high, some foreign companies have moved to Malaysia and other neighboring countries for cost considerations. The paper suggests that the country cannot be overly reliant on one sector, and that Singapore firms should consider internationalizing and setting up external wings so that they would not be vulnerable to the demands of TNCs.

Taking into consideration the COVID19 pandemic situation, the paper sees NEMs playing an important role in the new normal. With the growing use of electronic transactions, NEMs can take place without physical meetings and can support industries in expanding quickly through subcontracting or outsourcing. The remote work set-up has also increased the demand for the data center industry, and Singapore is fast becoming an important entry point to Southeast Asia for TNCs, such as Zoom, which has opened a data center in Singapore in 2020. Biopharmaceutical companies in Singapore are also attracting more NEMs, as TNCs are developing vaccines and medicines against COVID19. Singapore is tapping on its comparative advantage in a post-pandemic world, especially in the areas of technology, data centers and artificial intelligence, where NEMs are poised to support the growth of these industries.

“Non-Equity Modes of Trade in ASEAN: Promoting new forms of trade between Japan and ASEAN: Paper 8 Singapore” is available for download on AJC’s website as below.

https://www.asean.or.jp/en/trade-info/nem_papers/

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