Analysis of Singapore's Investment Environment in the Context of RCEP

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Abstract: In the context of RCEP, Singapore, as one of the old ASEAN countries, is one of the most advantageous countries for investment in Southeast Asia and the world. Based on the data from MAS and the World Bank, this paper adopts the investment environment rating method and analyzes Singapore's investment environment in a more comprehensive manner, starting from eight indicators, including capital withdrawal, foreign equity, degree of foreign business discrimination and control, currency stability, political stability, willingness to grant tariff protection, degree of local capital availability, and inflation rate in the past five years, etc. The results of the study show that Singapore's investment The results of the study show that Singapore's investment environment is outstanding, with an investment environment score of 88. Finally, this paper proposes reasonable countermeasures for China to learn from Singapore in view of the existing problems.

Keywords: Investment Environment; Rating Scale; RCEP

1. Introduction

On January 1, 2022, the Regional Comprehensive Economic Partnership Agreement (RCEP) officially entered into force, and Singapore was one of the first countries to do so. With the entry into force of RCEP and its gradual implementation, the flow of factors within the region has become more unhindered and trade and investment facilitation has been greatly enhanced. Up to now, Singapore has signed 30 free trade agreements with various countries, while the number of investment protection agreements and double taxation avoidance agreements are more than 40 and 80 respectively, making it a "high-income, low-risk" market. In the past two years, against the backdrop of the spread of the global Newcastle Pneumonia epidemic, the economic, trade and investment cooperation between China and Singapore has remained strong. China is Singapore's number one goods trading partner, number one export market and number one source of imports, as well as the third largest services trading country. As of 2021, China's direct investment flow and stock in Singapore amounted to US$8.41 and US$134.64 billion respectively, accounting for 4.7% of China's outward direct investment flow and 3.2% of its stock respectively. At present, Singapore has become the best destination for Chinese enterprises to "go global" to carry out trade and investment cooperation. As one of the international financial centers, Singapore has perfect infrastructure, deep investment facilitation, high government efficiency and convenient financing[1].

2. The current state of economic and social development in Singapore

2.1 Geographical Advantages of Singapore

Singapore is located at the southern tip of the Malaysian peninsula, consisting of Singapore Island and the 63 surrounding islands, while the "Eastern Crossroads" of the southern end of the golden waterway Malacca Strait, the location of obvious advantages. The Strait of Malacca is the main link between the Indian Ocean and the Pacific Ocean, and is also an important sea route connecting Asia, Europe and Africa, and is also the most important shipping transportation hub and shipping center in Asia. Singapore is separated from Indonesia by the Singapore Strait to the south and Malaysia by the Strait of Johor to the north, and is strategically located with many natural harbors. At the same time, the port of Singapore is strategically important, being the best developed port in the Straits of Malacca and the largest entrepot in the Asia-Pacific region. Singapore's unique geographical location allows for the development of the port's trade economy, financial sector, and tourism, which in turn will contribute to economic growth.

2.2 Singapore Ethnicity and Education

Singapore is a country of immigrants who come mainly from China, India, the Malay Peninsula and the Indonesian Islands. Singapore is also a country with several ethnic groups such as Chinese, Malay and Indian, with Chinese being the most numerous of all ethnic groups. According to the Singapore Bureau of Statistics, as of 2021, the total population of Singapore is 5.45 million, of which 3.5 million and 490,000 are Singapore citizens and permanent residents respectively, which shows that Singapore's non-resident population is still relatively large. In terms of education, Singapore implements a dual-track education system, namely general education and technical education, while combining education for all and elite education, advocating "training for all + lifelong education". Singapore is also continuing to invest heavily in education. By 2021, Singapore will have invested $12.6 billion in education, with 11.6 years of education for Singaporeans aged 25 and above. Singapore's population is widely and deeply educated, and the quality of the population is constantly improving due to the high level of investment in education [2]. This has laid the talent base for the long-term development of Singapore's economy.

2.3 Singapore's Economic Status

As one of the "Four Little Dragons of Asia", Singapore has a unique economic development model. According to the International Institute for Management Development (IMD) in Lausanne, Switzerland, Singapore is ranked third in the world and first in Asia in terms of competitiveness in the 2022 World Competitiveness Yearbook, which shows that Singapore is highly competitive and strong. Singapore's ability to attract foreign investment is outstanding, as shown in Figure 1, Singapore's ability to attract foreign direct investment flows has developed steadily, and Singapore accounts for more than 60% of the FDI flows attracted by ASEAN and about 10% globally, which shows Singapore's strong attractiveness and superior investment environment. In the "Doing Business 2020 Report" released by the World Bank, Singapore ranked 2nd for 4 consecutive years among 190 economies in the world, second only to New Zealand, and its simple tax structure and low level of tax burden have made Singapore the second most convenient business environment in the world[3].

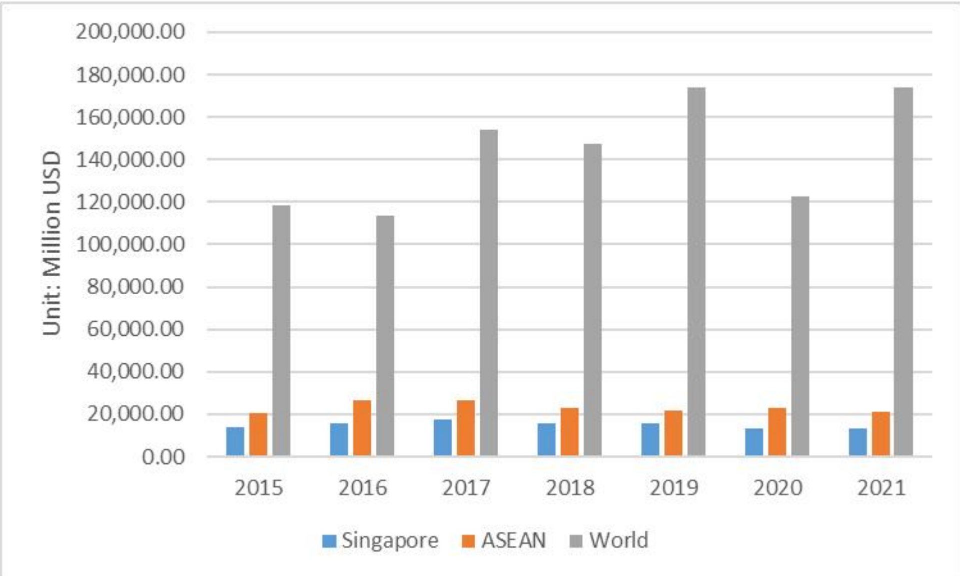

Figure 1: Singapore, ASEAN Overall and Global Attracted FDI Flows, 2015-2021

Data source: ASEAN Statistics Portal

3. Singapore Investment Environment Analysis

3.1 Investment Environment Research Methodology

There are many methods to analyze the investment environment, such as DEA, hot and cold countries, multi-factor assessment method, rating scale method, PEST method, etc. [4-10] In this paper, based on data availability, we mainly use the Roche rating method, which was proposed by the American economist Rorbert B. Stobaugh in 1969. He strips out the factors that are of most concern to investors from the investment environment and assigns scores to each factor according to its degree of importance, as shown in the following analysis.

3.2 Investment environment analysis

3.2.1 Capital Drawback

Singapore has restrictions on capital.

Singapore's tax incentives are mainly based on the Corporate Income Tax Act and the Economic Expansion Act, and it has signed Double Taxation Avoidance (DTA) agreements with several countries. Singapore has a regional taxation and a tax rate of only 17% on corporate income tax, on top of which Singapore determines whether the business enjoys the low Singapore tax rate based on whether the capital operates in the domestic financial center. At the same time, Singapore's policies are friendly to foreign investors, such as providing international legal tax avoidance operations and enhancing the circulation of foreign capital in the country. This series of operations are in fact designed to stabilize foreign capital, enhance its flow, attract it to operate in the capital market and slow down its exit from the domestic market. According to Singapore's policy, the following conditions must be met for a company to be written off: the company has ceased operations and is not involved in any court proceedings in Singapore or abroad; the company has no assets or liabilities in its accounting books; the company has no outstanding liabilities with the Accounting and Corporate Regulatory Authority and does not owe any liabilities to other government departments; the company has no outstanding taxes with the Inland Revenue Department; no person in the company (directors and shareholders) has any outstanding liabilities with the Accounting and Corporate Regulatory Authority; and the company has no outstanding liabilities with the Inland Revenue Department. The company has no outstanding summons penalties with the Accounting and Corporate Control Bureau.

3.2.2 Foreign Equity

All foreign equity is permitted and welcomed.

Since the founding of Singapore, it has developed an export-oriented economy and attracted a large amount of foreign investment, but Singapore takes a discouraging attitude in some industries, such as foreign investment in the assembly-type industrial sector. For equity, Singapore allows companies to own 100 percent of the shares, which is a protection for the country's development. Welcoming investment in new technology is beneficial to Singapore's technological development, so there is not much equity restriction in new technology. In terms of contribution ratio restrictions, Singapore does not allow more than 3% foreign investment in journalism, prohibits more than 49% in broadcasting, and prohibits investment in public utilities, but in other industries that do not have foreign contribution ratio restrictions, foreign investors can enjoy 100% equity.

3.2.3 Level of discrimination and regulation of foreign business

Slightly Restricted but Not Regulated for Foreign Business.

Singapore foreign investment law does not prohibit foreign investment in the sector, foreign investment access conditions are relatively relaxed. However, for some public sector investment control is relatively strict, such as some related to the entire Singapore national and national security of communications, journalism, transportation sector, etc., although in Singapore law does not prohibit foreign investment in such sectors, but in foreign investment review and administrative approval, the gate is strict. Specific restrictions on inward investment industries are reflected in Singapore's Manufacturing Restricted Investment Act, but are relatively few. These restrictions on investment industries are related to Singapore's national livelihood and national industries, with the aim of protecting national industries that are closely related to the nationals of Singapore and promoting the development of a virtuous economic cycle. Therefore, Singapore's investment entry policy is relatively liberal.

3.2.4. Currency stability

Fully Convertible.

Singapore has a fully freely convertible currency. In Singapore, the HKMA will develop an exchange rate policy band for exchange rate fluctuations, within this policy band, the exchange rate fluctuations have less impact and the exchange rate system is more flexible, once outside this range, the authorities immediately conduct foreign exchange trading to adjust the exchange rate back to the policy band. Second is the choice of a basket of currencies, which is selected according to Singapore's high trade dependence on national currencies and is cyclically adjusted, which provides a source of exchange rate stability measures, a higher degree of security. The third is that Singapore uses a crawling exchange rate system, the exchange rate adjustment is gradual and does not have to face the risk of sudden and drastic adjustments. In terms of foreign exchange reserves, Singapore's foreign exchange reserves are rising year by year, so it is able to guarantee external payments in regulating the balance of payments; it has the strength to stabilize the exchange rate of the local currency in intervening in the foreign exchange market; it is able to improve its external financing capacity in maintaining its international credibility, and it is also able to enhance its comprehensive national strength and its ability to resist risks.

3.2.5 Political Stability

The Chinese majority of Singapore adopts authoritarian politics, which has transformed the authoritarian ideology of Confucian political heritage to contribute to the one-party dominance of the Singapore People's Action Party (PAP) party system, while also inheriting the national ideology of the British colonies, contributing to the establishment of parliamentary democracy, elite rule, combining Eastern and Western cultures to form its own unique political culture, which has made an inescapable contribution to the stability of Singapore, and in terms of public opinion This has contributed to the stability of Singapore and has been very democratic and fair to the people. At the same time, Singapore is a city-state with only a central government and no subordinate branches, so in the political, economic and cultural management, the transmission path is short and the implementation of policies is more convenient, which greatly improves the efficiency of state management. Singapore's adoption of the policy of separation of powers, government agencies have their own duties. It is worth mentioning that the government's policy of enriching the people has brought the government closer to the people, and made the social relations harmonious, reducing the crime rate and various security risks. Externally, Singapore tends to adopt a policy of great power and peace, and is very friendly to foreign investment.

According to the World Bank's Global Governance Indicators, Singapore's scores in Voice and Accountability, Political Stability and Voice and Accountability, Government Effectiveness, Regulatory Quality, and the Global Governance Indicators are very high. Singapore's performance on the six governance indicators of Voice and Accountability, Political Stability and Voice and Accountability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption is impressive. Singapore's scores on all six indicators are relatively high, with higher scores indicating better government governance and stronger political stability. Singapore has achieved a win-win situation of development and stability, mainly through rigid control and flexible self-governance initiatives[11].

3.2.6 Degree of tariff protection

Given considerable protection but with a predominantly new industry.

Singapore has an open import policy, about 95% of goods are free to enter the Singapore market without tariffs, and Singapore has a special tariff policy on imports of alcohol, tobacco (including cigarettes), sugar products and refrigerators. The tax rate is generally low, the ad valorem rate of goods is 5%, except for automobiles, the tax rate of 45%. Singapore is currently divided into two special zones, the Jurong Industrial Zone and the Kent Post Technology Park. Among them, Kent Post Technology Park provides various facilities and preferential treatment for industrial R&D, encouraging domestic and foreign investors to develop new products and techniques. Tenants who invest in R&D in the park can apply for various government benefits, including R&D grants, training grants and tax subsidies. Singapore has a zero tariff policy for national transport operations and transport operations related to import and export trade at the same time.

3.2.7 Availability of local funds

Well-established capital market with a public stock exchange.

Singapore has a relatively well-developed financial system with nearly 1,000 financial institutions, making it the third largest in the world and the first financial center in Asia. Singapore is a highly internationalized country with the most mature capital market in the Asia-Pacific region, and in the world, with more than 600 financial institutions having their regional headquarters in Singapore. There are over 40,000 international companies, and over 80% of the world's top 500 companies have a presence or operate their business in Singapore. Singapore is also currently the world's fourth largest foreign exchange market; a leading asset management center in the Asia-Pacific region with over $1,100 billion in assets under management; one of the world's fastest growing and most active financing (bond) markets and over-the-counter (OTC) markets for financial derivatives; and a leading international center for commodity trading and pricing. In addition, the Singapore Stock Exchange is the third largest trading venue in Asia after Hong Kong and Tokyo.

3.2.8 Inflation rate in the last five years

Singapore inflation fluctuates around 1% during 2018-2021 and is even negative in 2020. core inflation in Singapore rose from 4.8% in July to 5.1% at one point in August 2022, while headline inflation also rose from 7% to 7.5%. core inflation rose in August due to increased food prices and service price increases in Singapore, while headline inflation rose not only the reason for the rise in core inflation is not only the increase in core inflation, but also the expansion of transport price increases. 2022 inflation continues to be high throughout the year, with the overall inflation rate at an average of 5-6%, and the core inflation rate at 5.1% in the fourth quarter.

So overall inflation in Singapore has been at 1-3% on average over the last five years.

3.3 Rating Scale

Based on the above analysis, the paper summarizes the following rating scale.

Table 1 Singapore Weighted Rating Scale

Investment environment factors	Singapore Investment Environment	Grade Rating 0~100
Foreign Equity	Permitted and welcomed all foreign equity	12
Tariff protection system	Considerable protection but mainly for new industries	6
Inflation rate in the last five years	1%~3%	12
Capital Drawback	There are restrictions on capital	6
Currency stability	Fully Convertible	20
The extent of discrimination and control against foreign investors	Slight restrictions on foreign investors but no control	10
Political Stability	Long-term stability	12
Availability of local funds	A well-developed capital market with a public stock exchange	10
Total Score		88

4. How China can learn from Singapore's strengths to optimize China's investment environment

In the process of RCEP entering into force and gradually implementing it, China can make full use of the provisions of the RCEP investment rules to expand outward investment while also needing to improve the domestic investment environment.

4.1 Create a standardized and strict legal environment

Singapore is a society governed by the rule of law, and their laws and regulations are well-developed, with detailed and serious penalties for all kinds of violations. Moreover, Singapore citizens have a high level of legal literacy and a strong awareness of the law. Singapore's legal environment is very good and can be considered as a goal for the development of various countries. In terms of law, China should learn from Singapore to formulate perfect laws and regulations and implement them strictly; in terms of economic regulations, they should also be adjusted according to the actual situation, especially those related to direct investment by foreign companies, in order to improve the investment environment and protect the interests of investors.

4.2 Maintain a healthy economic environment

As we can see from the rating scale, Singapore's inflation rate has remained stable in the 1-3% range over the last five years, while China's inflation rate has fluctuated in a much wider range of 3-7%. Therefore, Singapore's economic environment is relatively stable and healthy. The Chinese government can develop and implement relative measures to intervene and lead the Chinese economy to maintain a sustained and healthy growth momentum and provide a favorable economic environment for investment.

4.3 Maintain the image of pragmatic, efficient and clean government

The Singapore government manages efficiency. This is because they will set up specialized agencies to handle special matters. For instance, the Economic Development Board is the agency that is responsible for the investment declaration and approval process. It is because of this that the Singapore government works to a level of simplicity and efficiency. And the integrity of the government is also one of the major reasons for the efficient administration of the Singapore government. The Singapore government has established many legal mechanisms to prevent corruption among government officials, and has implemented relevant anti-corruption regulations that have been improved many times, which have proven that very strict laws and regulations can indeed reduce the chances of government corruption. China is also doing better and better in this regard, but it can still learn from Singapore to establish a better legal system and promote the right moral values, then to avoid government corruption, reduce the crime rate, and maintain a stable political and social environment.

4.4 Strengthening currency stability

For international investors, the stability of the currency is one of the important issues to consider. Although Singapore has taken measures to avoid an economic slowdown, inflationary pressures are still inevitable and the Monetary Authority of Singapore will likely continue to maintain a "gradual appreciation of the Singapore dollar against a trade-weighted basket of currencies" to deal with imported inflation. Against this backdrop, the Singapore dollar can maintain a better stability than the currencies of other Asian countries. In Singapore, the capital market is more open and there are no restrictions on the currency. Currently, China's capital market is still in the development stage, the RMB is not yet freely convertible, and the RMB exchange rate stability is still in a slow upward phase. What China needs to do now is to keep inflation at a moderate level to ensure the stability of local prices and maintain the value of its currency.

4.5 Implementation of various policies to encourage foreign investment

How to attract foreign investment is an important part of economic development for every country. In order to attract foreign investment, the Singapore government has formulated and implemented many policies and measures, among which the most beneficial to foreign investors are investment incentives, especially taxation policies. What China can do in investment promotion is to make full use of the provisions of the RCEP investment rules to formulate suitable tax policies and improve investment convenience; to give more preferences to foreign investors within the appropriate scope and relax market access conditions. Some facilitation policies can also be adopted to help foreign-invested enterprises reduce their operating costs, for example, for the use of land, they can be supported to intensify their land use, and for the employment of workers, they can be allowed to use it flexibly according to the law. And to encourage their development, foreign-invested enterprises can be given certain financial support and incentives when they make outstanding contributions.

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