

Singapore. Structure, problems, application

5.0% Real GDP growth 2025 (6.1% H1 2026)	\$604 bn Nominal GDP 2025	~\$99,000 GDP per head 2025; GNI per head ~\$81,800	~31% Household consumption % of GDP 2025	~17% Current account surplus % of GDP 2025
0.9% CPI 2025; core 1.5% in Q2 2026	2.0% Unemployment 2025 (residents 2.9%)	0.87 Fertility 2025; 21.4% of citizens 65+	0.379 Gini after transfers 2025 (0.452 before)	~320% Trade % of GDP 2025; super-open

STRUCTURE OF THE ECONOMY

	% OF VALUE ADDED (APPROX.)	% OF JOBS (2025)
Agriculture	~0	0.1
Industry	~24	14.0
Services	~76	~86

- Manufacturing ~17–20% of GDP: chips, pharma, petrochemicals; mostly foreign MNCs.
- AD mix:** low C (CPF saving), I ~22%, modest G, huge (X–M). Growth follows world trade.
- Small multiplier:** high marginal propensity to import and to save.
- System:** open market economy with a strategic state: land, HDB, CPF, Temasek.

MAIN INDUSTRIES

- Chips:** ~1 in 10 of world's chips; manufacturing +8.7% in 2025.
- Finance:** Asia's largest FX market, 3rd in world; DBS.
- Port & trade:** one of world's two busiest container ports; re-exports.
- Energy:** Jurong Island refining; world's largest bunkering port.
- Biomedical:** global drug firms' plants; US tariff threats.
- Hub services:** Changi, SIA, tourism, regional HQs.

GROWTH STORY: TURNING POINTS

1965 Independence: no resources, GDP/head ~\$500	1968 British withdrawal (~⅓ of GDP) → FDI drive, Jurong	1981 MAS exchange-rate policy; GIC founded	1985 Recession: CPF employer rate cut to lower costs
1997 Asian crisis: reserves, no FX debt → mild hit	2004 US FTA; later EU, China, CPTPP, RCEP	2020 –3.6%; reserves fund support; +10.1% in 2021	2025–26 10% US tariff; AI boom; MAS tightens twice

Growth model: stable rules + low tax + infrastructure → FDI brings capital, technology, markets → CPF saving funds housing and infrastructure → state upgrades skills → higher-value work.

EIGHT PROBLEMS

PROBLEM	EVIDENCE	SPEC LINK
External shocks	Trade ~320% GDP; 10% US tariff	Globalisation, cycle
Ageing, low births	Fertility 0.87; 21.4% 65+	LRAS, health costs
Foreign labour	1.66 m work pass holders	Migration, wages
Inequality	Gini 0.452 before transfers	Inequality
Energy security	~95% of power from imported gas	Cost-push, externalities
Cost of living	Flat prices up sharply after 2020	Inelastic supply
Global minimum tax	15% from 2025	FDI, taxation
Productivity gap	GNI/head ~17% below GDP/head	GDP vs GNI

INEQUALITY & DEVELOPMENT

- Median household market income S\$12,446/month (2025), +6.8% real.
- Gini 0.452 before, 0.379 after taxes and transfers (2025).
- Targeted help: Workfare, Progressive Wage Models, housing grants; no general minimum wage.
- Close to 80% of residents in HDB flats; ~90% home ownership.
- Data cover residents only: low-wage migrants excluded.

Can the hub model last? For: institutions, reserves, AI supply chain. Against: tariffs, minimum tax, ageing, immigration politics.

CLASSIC CHAINS USING SINGAPORE

Exchange-rate policy: MAS steepens slope → S\$ appreciates → imports cheaper in S\$ → lower costs and prices → inflation ↓; exports dearer → AD ↓ slightly.

FDI-led growth: low tax, stable rules → FDI ↑ → capital and technology ↑ → productivity and exports ↑ → LRAS ↑ → but profits flow abroad (GNI < GDP).

Small multiplier: government spending ↑ → incomes ↑ → much spent on imports or saved in CPF → large leakages → small rise in real GDP.

A · DATA RECALL (1 MARK EACH)

1. Real GDP growth in 2025: _____
2. Trade as % of GDP (approx.): _____
3. Household consumption % of GDP: _____
4. Unemployment rate in 2025: _____
5. Resident fertility rate in 2025: _____
6. Year of independence: _____
7. Gini after taxes and transfers: _____
8. Total CPF rate (age 55 and under): _____

B · MATCH THE EVIDENCE TO THE ECONOMIC CONCEPT

SINGAPORE EVIDENCE	LETTER	CONCEPT
1. MAS raises the slope of the S\$NEER band		A. Small multiplier
2. Much extra spending goes on imports		B. FDI-led growth
3. Workers and employers pay 37% of wages into the CPF		C. Exchange-rate-based monetary policy
4. Multinationals build chip and drug plants		D. Redistribution
5. Gini falls from 0.452 to 0.379		E. Compulsory saving
6. GNI per head below GDP per head		F. Profits paid to foreign owners

C · COMPLETE THE CHAINS

1. S\$ appreciates → _____ → firms' costs fall → _____.
2. Government spending rises → incomes rise → _____ → _____.
3. World trade falls → _____ → _____ → unemployment rises.

D · EXAM-STYLE QUESTIONS

Extract. In July 2026 MAS tightened policy for the second time that year by slightly increasing the rate of appreciation (slope) of its exchange-rate band. Core inflation had risen to 1.5% in Q2 as energy costs rose after the Iran war. The economy grew 5.9% year-on-year in Q2, and the 2026 forecast was raised to 4.5–5.5%.

(5 marks) With reference to the extract, explain how a faster appreciation of the Singapore dollar is likely to reduce inflation.

(8 marks) Examine two reasons why the multiplier is likely to be small in Singapore.

E · PLAN A 25-MARK ANSWER

(25 marks) Evaluate the extent to which other countries could copy Singapore's model of economic development.

PARTS THAT CAN BE COPIED (WITH EVIDENCE)	PARTS THAT ARE HARD TO COPY / LIMITS
OVERALL JUDGMENT: IT DEPENDS ON...	

A · DATA RECALL

1. 5.0% (accept 4.8–5.0%)
2. About 320% (accept 300–330%)
3. About 31%
4. 2.0%
5. 0.87
6. 1965
7. 0.379 (accept about 0.38)
8. 37% (20% employee + 17% employer)

B · MATCHING

1 → C · 2 → A · 3 → E · 4 → B · 5 → D · 6 → F

C · CHAINS

1. Import prices fall in S\$ (imported energy, food, components) → lower prices / inflation falls (also exports dearer → AD ↓ slightly).
2. Much of the extra income is spent on imports or saved (CPF) → large leakages → small multiplier / small rise in real GDP.
3. Export demand falls → (X–M) and AD fall (firms cut output and investment) → real GDP falls.

D · EXAM-STYLE GUIDANCE

5 marks: Define appreciation or inflation (1). Chain: S\$ appreciates → imports cheaper in S\$ → lower costs for firms and lower prices for consumers (2). Second channel: exports dearer → AD ↓ → less demand-pull pressure (1). Use data: core inflation 1.5%, energy costs up, growth 5.9% (1). Singapore's very high import share makes this channel strong.

8 marks: Knowledge/application: (1) high marginal propensity to import: food, fuel, cars and components are imported; (2) high marginal propensity to save: CPF contributions of 37% of pay up to age 55; also remittances by foreign workers. Analysis: leakages from the circular flow → each round of spending smaller → multiplier = $1/(MPS + MPT + MPM)$ is small. Evaluation (2 points for full marks): spending on local services and construction has a larger effect; transfers to low earners have a higher MPC; the size of the leakage depends on what the money is spent on.

E · 25-MARK PLAN: POINTS TO LOOK FOR

Can be copied

- Rule of law, low corruption, stable rules for investors.
- Investment in education and skills.
- FDI promotion agency (EDB) and infrastructure.
- Funded saving scheme (CPF) for housing and pensions.
- Targeted wage top-ups (Workfare).

Hard to copy / limits

- Strategic location on a major shipping lane.
- Tiny size: trade at 320% of GDP is impossible for large countries.
- State owns most land, enabling HDB.
- Long-term planning under one dominant party.
- Today: 15% minimum tax, tariffs, US–China rivalry.

Judgment: the principles (institutions, human capital, openness) transfer better than the specific institutions (CPF, HDB, exchange-rate policy). Small open economies can copy more of it than large ones. Compare Ireland (similar FDI route) and South Korea (different route to high income).