

# The economy and the factors of production



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## **General Information and Demographics**

“ Singa-Pura” which means The City of the Lion is from where Singapore derives its name. The official name is The Republic of Singapore. It is a diamond shaped island in South East Asia, having an endless coastline of 193 km, surrounded by 60 smaller islets which are a part of the country. This ‘ City-State’ is located in the southern tip of the Malay Peninsula, serves as a meeting point between two vast water bodies - the Indian Ocean and the South China Sea. Singapore is separated from Indonesia by the Singapore Strait and from Malaysia by the Straits of Johor. Due to this critical location of the country, it serves as one of the largest ports in Southeast Asia and is also one of the busiest in the world. Thus, Singapore is counted as the worlds 4th leading financial center, and plays a critical role in international finance as well as trade.

Topographically, the nation has hills of sedimentary rocks in the northwest region and sandy flat land in the east. Bukit Timah, which is built of igneous rocks and granite and is 206 m above sea level, is considered as the highest peak in the country. The island was initially covered with dense and tropical forests inland and mangroves along the coast. 40% of the land is utilized for parklands, reservoirs and plantations and 50% of it is urbanized.

Singapore is a city-state. A ‘ City-State’ may be defined as that independent country which consists of a city which is not under the administration of another local government. The government lays special emphasis on essentials like water, and also stores resources like oil and sand. This way,

they are not dependent economically or politically on any larger enterprise and meet the definition of a city as well as a fully sovereign state.

Taking into consideration all the islands, the total area of this country is about 704 sq. km, and as of year 2007 the approximate population is 4. 8 million people. The Chinese constitute around 78% and 14% of the people are Malays. Indians also make up around 7% of the population of this multi-lingual state whose national language is Malay. The other official languages are English, Mandarin and Tamil. It is one of the most densely populated countries in the world, and in 2008 the population growth rate was 3. 1%. The literacy rate in this country in 2009 was 96. 3% and its currency is the Singapore Dollar. 1 Singapore dollar is approximately 0. 74 U. S. dollars.

## **The Political System**

On the 9th of August, 1965 Singapore became an independent republic from the Federation on Malaysia. Since then, the politics has been dominated by the People's Action Party (PAP) even though in theory there exists a multi party system. In the election held in 2006, 82 of the 84 seats in the parliament were won by the PAP. The framework is that of a Parliamentary Republic and the Head of State is the Prime Minister. There exists a dominant party system and there are 3 branches present in the government - The Executive, The Legislature and The Judiciary.

The legislative power lies in the hands of the Parliament as well as the Government and the Judiciary is free of the other two divisions of the government. The executive power is vested in the government. Elections in Singapore are held every 5 years and after the election, the President

appoints, from one of the members of parliament, the Prime Minister. It is known that the President is a figurehead or more of a representative character and has no actual power to make decisions for the state.

The Executive – It consists of the cabinet of Singapore which is composed of the President and the Government. It is collectively responsible to the parliament and controls law making to some extent. The cabinet is appointed by the President, after consulting the Prime Minister.

The Legislature – This body along with the President comprises the Parliament. It is made up of the elected representatives of the people. The charge of administration is in the hands of the speaker. The main purpose revolves around controlling finances, making laws and ensuring accountability.

The Judiciary – In Singapore, the Supreme Court has full Judicial control. It consists of two sub courts, the High Court and the Court of Appeal. The appointment of judges is done by the President after they have been recommended by the Prime Minister. In 2008, it was reported that Singapore has the best Judicial system in Asia.

Singapore is considered as a ‘ hybrid’ country, as it has democratic as well as authoritarian elements. The People’s Action Party has been re-elected every time since 1959 and in many of the General Elections they have won all the seats in the Parliament. Some of the major opposition parties include the Workers’ Party and the SDA which is the Singapore Democratic Alliance.

Singapore's political system may be largely interpreted as a successful one, as the constant re-election of the PAP has uplifted Singapore from a Third World country to a First. The party has proven itself by keeping the nation afloat through various crises since the 1970's, including the oil shock of the 1970's, the recession of the 80's and the Asian financial crisis. The party can be regarded as one with great depth of experience and is evidently doing well for the country as there exists an undisputed economical success. It is also rated as one of the least corrupt countries in the world.

However, every system has its drawback. In Singapore's political system, the major point of criticism is that there is practically no balance of power between the opposition and the ruling party. Another negative aspect of the system is the there is no freedom of press and death penalty is perceived as a downside by many. It should also be noted, that the salary of the head of government of Singapore is the highest in the world at 3. 1 Mio S \$ and this is frowned upon by many.

## **The Economy and the Factors of Production**

The resources employed to produce goods, like land, labour and services are known as factors of production. Each factor is unique in the role it plays in the country's economy. The economy of Singapore is highly developed, and may be called as a free-market economy. It is highly dependent on exports, and thus due to the global recession in 2001-2003 it was hit hard.

However, since then, due to a great amount of internal flexibility, and lowered interest rates, between 2004 and 2007 the GDP growth was around 7% per annum. The GDP share of services of Singapore may be compared to

that of countries like Taiwan and Ireland, where as in terms of services it may be compares to Germany or Japan. (fig 3). However, after 2008, there has been a rapid and regrettable decrease in the GDP of the country (fig 4). In 2008, the actual annual growth rate was only 1. 4% and in 2009, it fell to - 2%.

Due to the presence of an open business setting, the system is practically corruption free and this has helped the national economy greatly. Exports are the main source of revenue and entrepot trade is practiced too. The financial control is in the hands of the legislature of the country. There is a ' development fund' where capital assets, land acquisitions and any other capital contributions are directed. The government can withdraw this money once a ' supply law' is passed by the parliament.

## **Land**

It is considered to be a passive factor of production, one that is not created by humans. In Singapore, the land is used to cultivate crops like rubber, copra, poultry, fruits and vegetables. The long coastline is also taken advantage of by deepwater ports and fisheries are a major industry too. However, land in Singapore has been the slowest growing factor of production. The land is used for commercial, industrial and agricultural purposes but since 1960 has grown only by 5%. This reflects on the reclamation and the release of state owned land for various purposes like development. It should also be accounted, that land used for agriculture has greatly declined and that used for non-agrarian purposes has increased. The graphical representation for the various uses of the land is depicted in the appendix as fig 5.

## **Labour**

This refers to human input and effort and the ability of the people to work. It may be measured as the physical as well as mental input of the employee to the job given. In Singapore, the workforce is around 2.2 million and is also dependent on foreign labour. There is a single trade union federation, the National Trades Union Congress, which contains approximately 99% of organised labour. The general labour matters are controlled by government policies. There is an income threshold and little protection for white collar workers and a special court to manage disputes which cannot be solved informally. The unemployment rate rose to 4% in 2001, and in 2007 was 2.7%. A variety of programmes have been put forth by the Singapore government to boost the labour force amongst elders and women. The shortfall in labour forces is made up by foreign workers, and recent data showed that 27% of the work force was comprised of them. The services sector is an important sector of the Singapore economy. In 2005, the sector accounted for 63.8 per cent of nominal GDP and 68.7 per cent of total employment (fig 6).

## **Capital**

The capital of a country increases the ability of the country to produce more wealth. The accumulation of capital has been the most important factor of production for Singapore. The scale of investment is impressive, and Singapore's capital stock increased 33 fold since 1960. In 2003, the total trade was of \$ 279 billion, and it is the 14th largest trading partner of the United States. The principle exports are food, textiles and petroleum products amongst chemicals and electronic equipment. Singapore's main

imports are aircraft, crude oil, electronic components, iron and steel. It attracts large scale investors and as of 2003, the total asset acquired by the stock invested by U. S. companies was about \$61. 4 billion. Manufacture accounted for 24% and Services 64% of Singapore's total industrial output. Fig 7 in the appendix will show how each sector has contributed to the GDP and growth of the country's economy.

## **Conclusion and Findings**

It can thus be concluded from the above information obtained, that the Republic of Singapore is a nation on an upward rise in this industrialised world and has a lot to offer. Singapore has also been involved in promoting biotechnology and top research scientists have been involved in this project. The national government also plans to put into action a fiscal policy that would focus on expansion and reduce the impact of recession. The two major sectors are the manufacture and service sectors and measures have been taken by the government to maintain the position of the economy. We can hence conclude that this macro-economic trend for Singapore along with the consistency in the government and availability of resources as well as strategic location has worked out well for the country.

## **Appendix**

Fig 1 - The Map of Singapore

Fig 2 - The National Flag of Singapore

Fig 3 - Comparison of GDP Shares and Services

Fig 4 - GDP of Singapore



Fig 5 - Use of Land in Singapore

Fig 6 - GDP and Employment in Singapore

Fig 7 - Singapore's GDP by Industry