

ANNUAL SURVEY ON INFOCOMM INDUSTRY FOR 2003

EXECUTIVE SUMMARY

Introduction

The Annual Survey on Infocomm Industry for 2003 is the latest edition in a series of infocomm industry surveys carried out by IDA. The purpose of the survey was to determine the market performance of the Singapore infocomm industry for the year 2003 as well as to identify key development trends of the industry in Singapore.

The fieldwork for this survey was carried out from March 2004 till June 2004. The survey covered a representative sample of infocomm enterprises stratified by the Singapore Standard Industrial Classification codes. The responses were then extrapolated for analysis.

Overall Performance

Singapore's infocomm industry grew by 2.0% in 2003 (see Figure 1), in tandem with the expansion of Singapore's economy by 1.1%. Total revenue chalked up by the infocomm industry in 2003 was \$32.83 billion, up from \$32.17 billion in 2002 (see Table 1).

Figure 1: Total Infocomm Industry Revenue Growth Rates

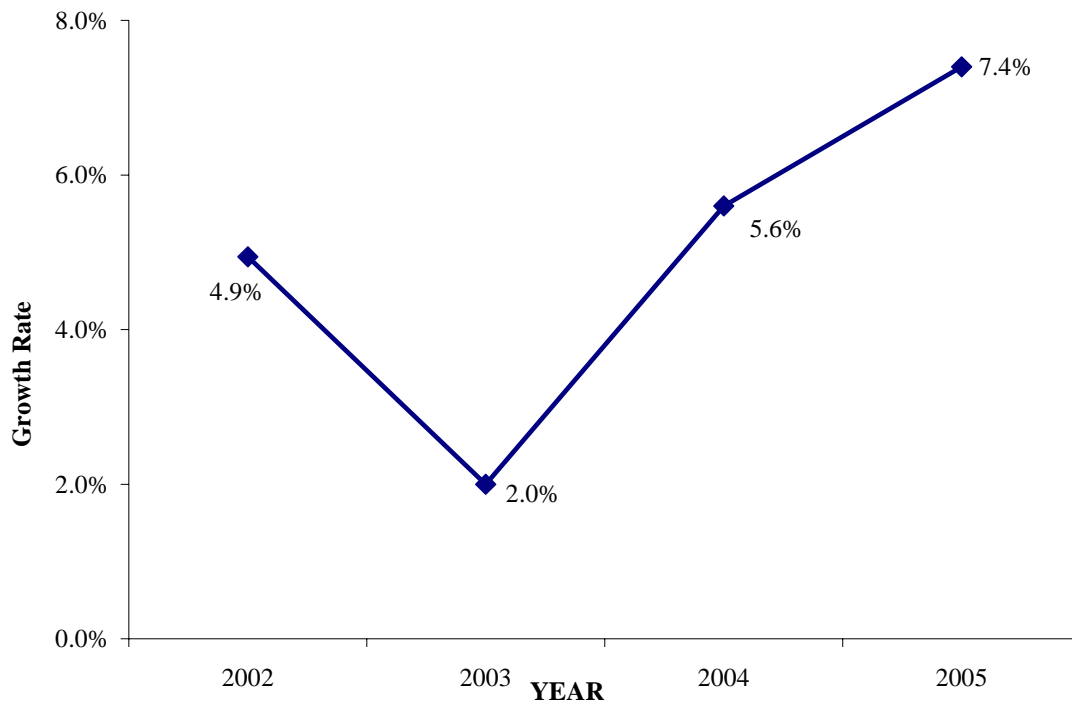


Table 1: Total Infocomm Industry Revenue by Products and Services (\$ billions)

Products/Services	2001 (actual)	2002 ¹ (actual)	2003 (actual)	2004 (forecast)	2005 (forecast)
Hardware Retail	11.47	13.16	15.13	15.93	16.93
Telecommunication Services	6.14	6.40	6.64	6.91	7.21
Software	7.61	5.99	5.10	5.53	6.12
IT Services	3.78	4.33	3.23	3.44	3.78
Content Activities	1.64	2.29	2.73	2.87	3.22
Total	30.64	32.17	32.83	34.68	37.26

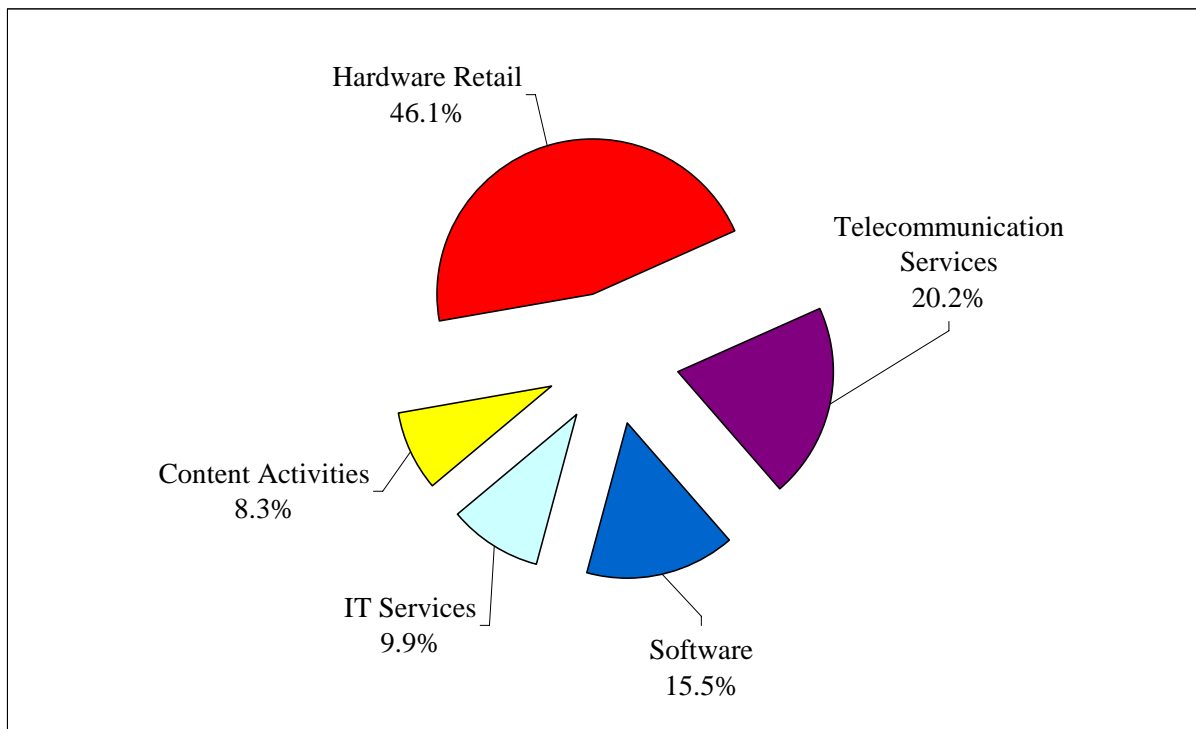
In tandem with the recovery in global economic conditions, the outlook for Singapore's infocomm industry was expected to be bright with companies projecting a growth of 5.6% in 2004 and a much higher growth of 7.4% in 2005.

¹ There was a reclassification of product from software to hardware by a major player.

Contribution by Products and Services

Hardware Retail took the lion's share of the total infocomm industry revenue in 2003, accounting for 46.1% of the overall pie (see Figure 2), followed by Telecommunication Services (20.2%). Software (15.5%), IT Services (9.9%) and Content Activities (8.3%) made up the rest. Comparing with 2002, Hardware Retail, Telecommunication Services and Content Activities showed growth while the other two segments – Software and IT Services – did not perform as well.

Figure 2: Total Infocomm Industry Market Composition by Products and Services



Base: Total Infocomm Industry Revenue for 2003 (\$32.83 billion)

Contribution by Domestic and Export Markets

The export market had a higher share of the total 2003 infocomm industry revenue than the domestic market i.e. 54.1% versus 45.9%. This percentage is expected to increase slightly over the next two years with the expected increase in external demand.

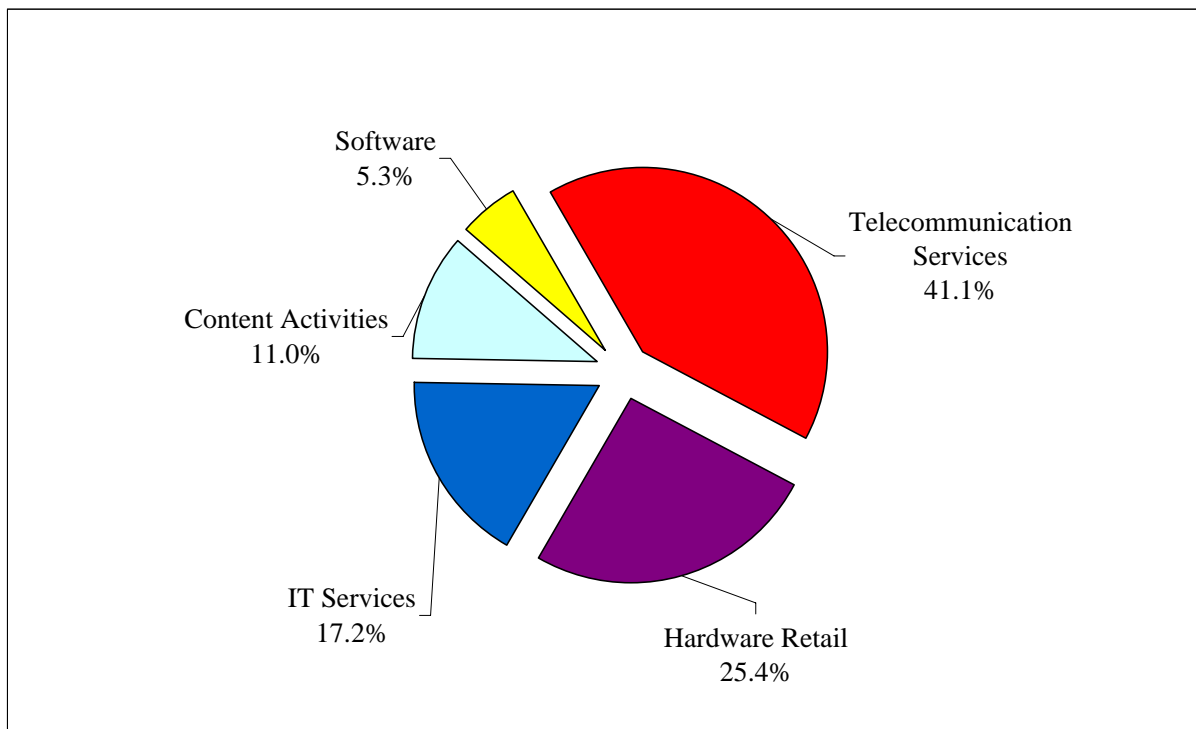
Table 2: Percentage Split of Infocomm Industry Revenue Between Domestic and Export Market

Market	2001 (actual)	2002 (actual)	2003 (actual)	2004 (forecast)	2005 (forecast)
Domestic	46.5	46.9	45.9	44.6	43.4
Export	53.5	53.1	54.1	55.4	56.6
Total	100.0	100.0	100.0	100.0	100.0

Domestic Market Performance

For the domestic market, Telecommunication Services accounted for more than two-fifths of the total domestic revenue in 2003 (41.1%), followed by Hardware Retail (25.4%), IT Services (17.2%), Content Activities (11.0%) and Software (5.3%) (see Figure 3).

Figure 3: Total Domestic Market Composition by Products and Services



Base: Infocomm Industry Domestic Revenue for 2003 (\$15.05 billion)

In 2003, domestic revenue from Hardware Retail experienced the highest growth rate (40.1%) (see Figure 4). Content Activities (2.5%) and Telecommunication Services (2.0%) also experienced an increase in their domestic revenue. In contrast, IT Services and Software declined by 29.1% and 21.5% respectively.

The increase in Hardware Retail was due partly to the slew of promotions of computer hardware and accessories during the past year, and partly to better business sentiments towards the last quarter of 2003. The reason for the fall in IT Services' and Software's shares of total domestic revenue was due to lack of new software product launches and poor performance results from a few large IT services/software companies in 2003.

Looking ahead to 2004, in accordance with continuing positive business sentiments, domestic revenue from all products and services were expected to see positive growth with Content Activities having the highest percentage growth (4.4%). The prospects for 2005 would be even brighter with almost all products/services registering even higher percentage growth rates than 2004, except for Hardware Retail.

Figure 4: Domestic Market Growth by Products and Services

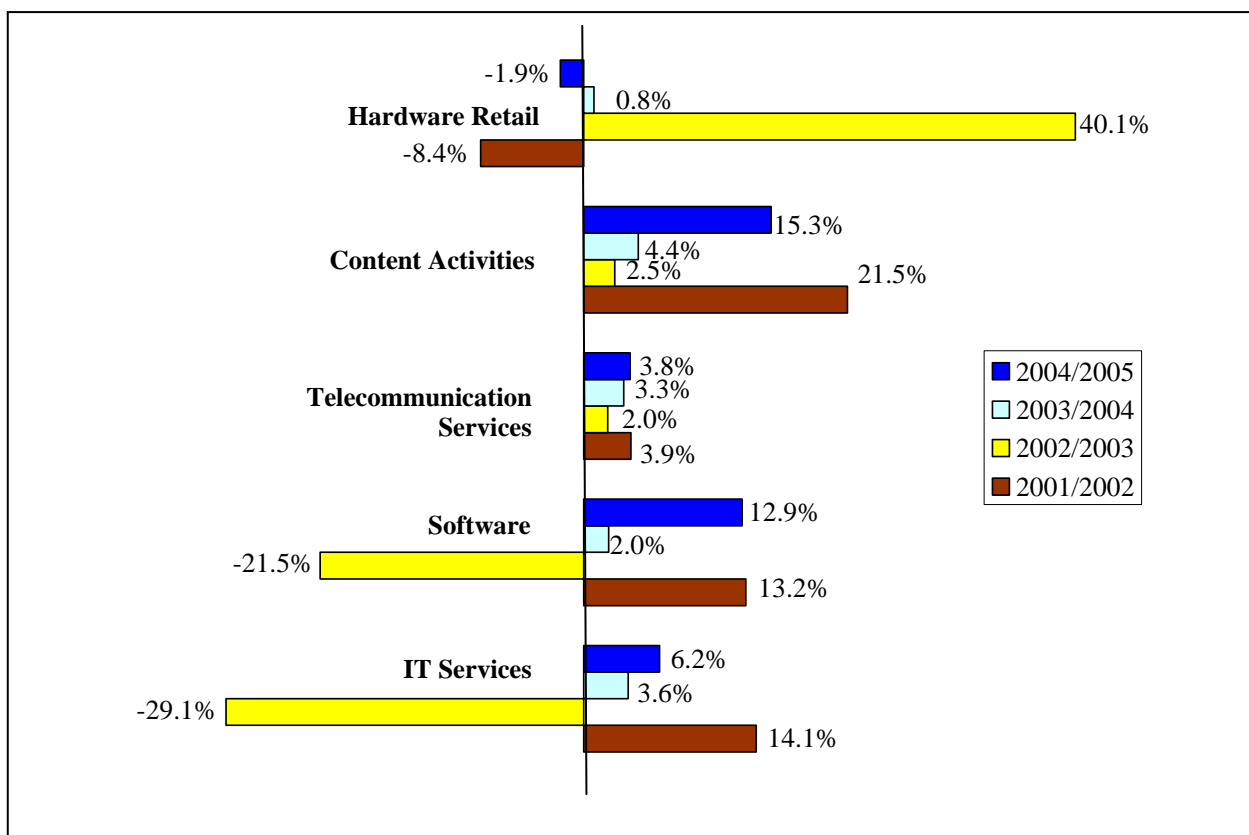


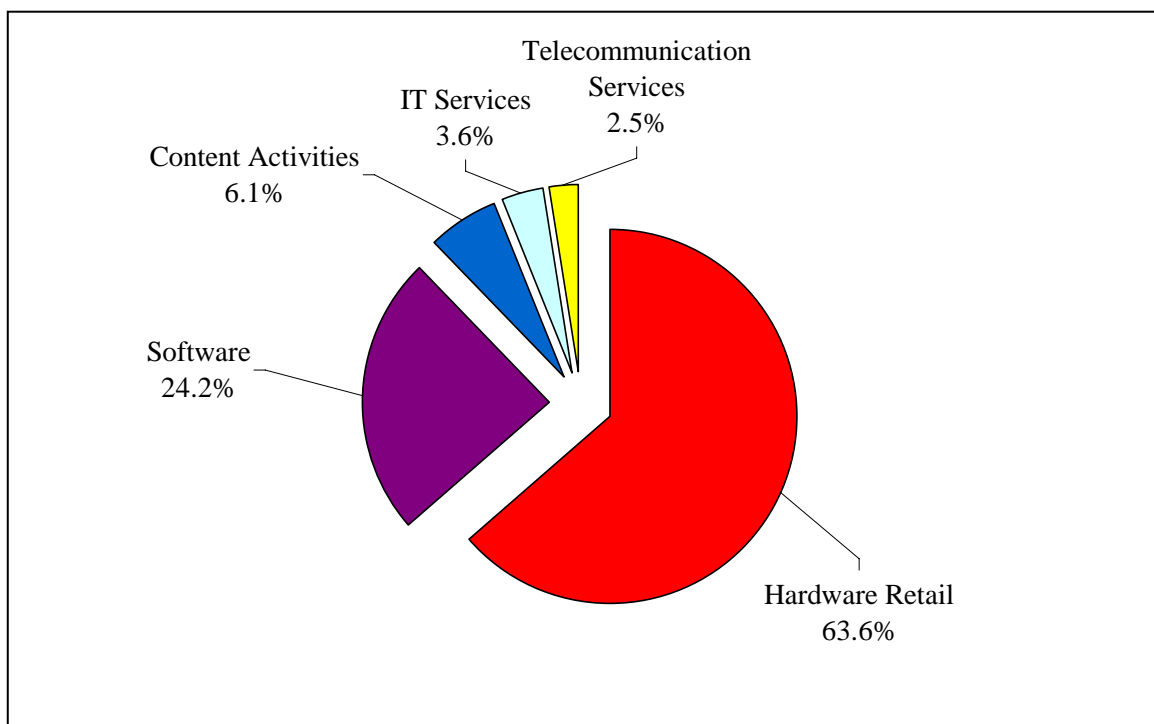
Table 3: Domestic Market Revenue Over the Years by Products and Services (\$ billions)

Products/Services	2001 (actual)	2002 (actual)	2003 (actual)	2004 (forecast)	2005 (forecast)
Telecommunication Services	5.85	6.07	6.19	6.39	6.64
Hardware Retail	2.98	2.73	3.82	3.86	3.79
IT Services	3.20	3.65	2.59	2.68	2.85
Content Activities	1.32	1.60	1.65	1.72	1.98
Software	0.90	1.02	0.80	0.82	0.92
Total	14.25	15.07	15.05	15.47	16.18

Export Market Performance

For the export market, the picture was different. Both Hardware Retail and Software continued to dominate the export market in 2003, capturing more than four-fifths (Hardware Retail – 63.6% and Software – 24.2%) of the total export revenue (see Figure 5). This was followed by Content Activities (6.1%), IT Services (3.6%) and Telecommunication Services (2.5%). However, Software’s share of the export market fell, again due to decrease in global demand.

Figure 5: Total Export Market Composition by Products and Services

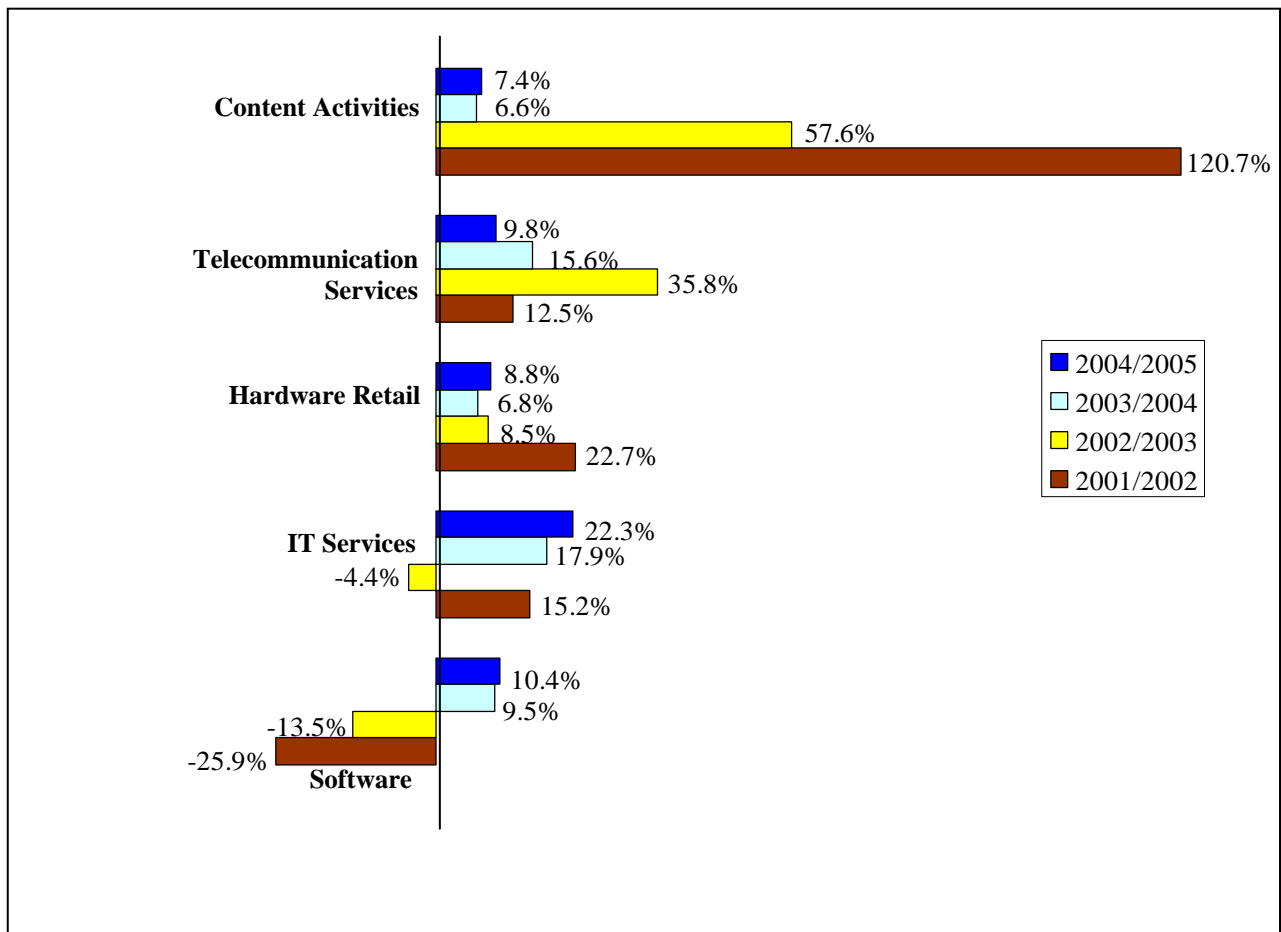


Base: Infocomm Industry Export Revenue for 2003 (\$17.78 billion)

In 2003, Content Activities saw the strongest growth (57.6%) to reach a total revenue of \$1.08 billion. Telecommunication Services had the second highest growth at 35.8%, followed by Hardware Retail (8.5%), In contrast, Software and IT Services declined by 13.5% and 4.4% respectively (see Figure 6).

Like the domestic market, the prospects for the export market were expected to be better for 2004 and 2005 with all products/services registering positive growth for these two years.

Figure 6: Export Market Growth by Products and Services



**Table 4: Export Market Revenue Over the Years by Products and Services
(\$ billions)**

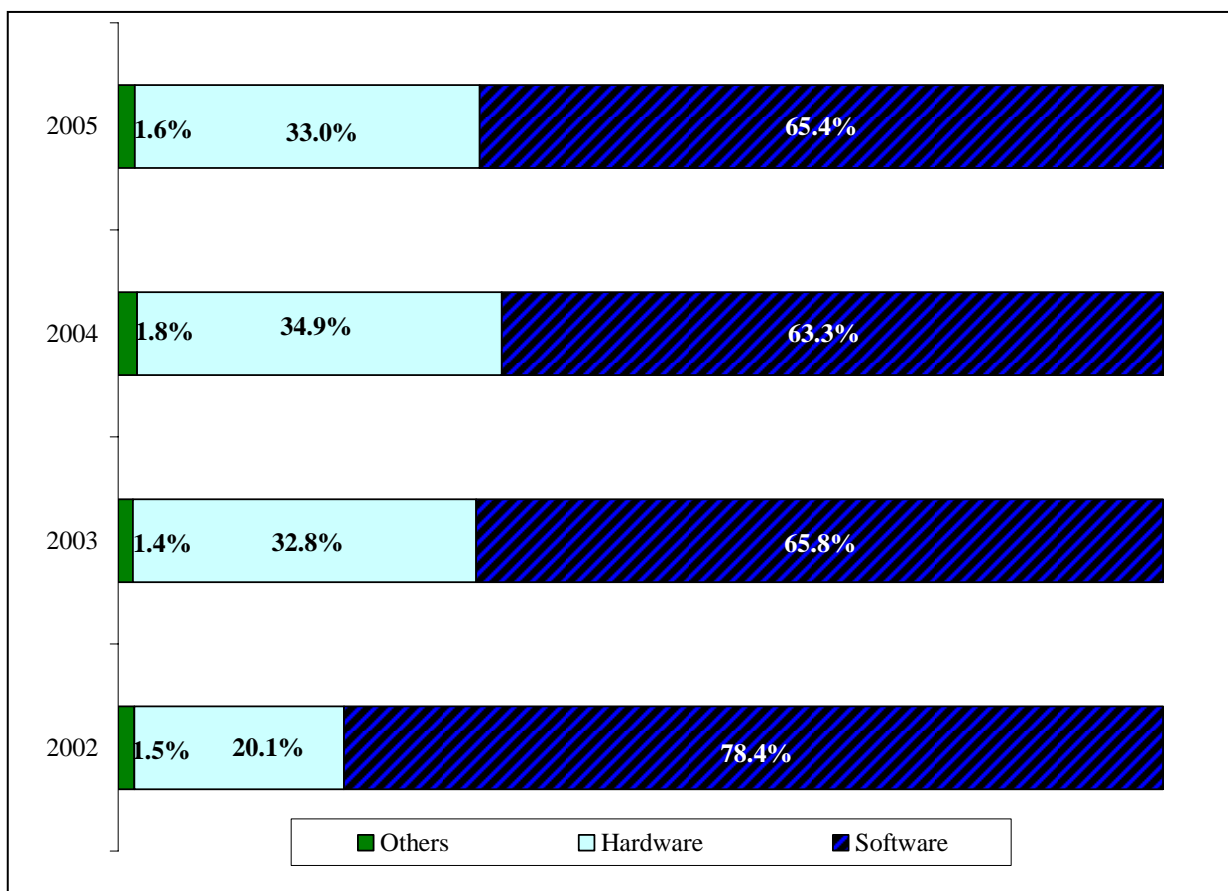
Products/Services	2001 (actual)	2002 (actual)	2003 (actual)	2004 (forecast)	2005 (forecast)
Hardware Retail	8.49	10.43	11.31	12.07	13.14
Software	6.71	4.97	4.30	4.71	5.20
Content Activities	0.32	0.69	1.08	1.15	1.24
IT Services	0.58	0.68	0.64	0.76	0.93
Telecommunication Services	0.29	0.33	0.45	0.52	0.57
Total	16.39	17.10	17.78	19.21	21.08

Expenditure on R&D

20.0% of infocomm companies spent on R&D in 2003, as compared to 20.3% in 2002. Looking ahead, the number of companies which were expected to spend on R&D, increase marginally to 20.6% in 2004 and 20.9% in 2005. In absolute terms, the total amount spent by infocomm companies on R&D was expected to steadily increase over the next two years.

Software products commanded the greatest share of R&D expenditure in 2003 (65.8%) (see Figure 7). However, its share of R&D expenditure had declined from the year before whereas hardware products' share of R&D expenditure had increased. The rest of the products and services commanded less than 2% of the R&D expenditure. This composition would not be expected to change much over the next two years.

Figure 7: R&D Expenditure by Products and Services



Base: R&D Expenditure for Each Year (2002-\$0.36 billion, 2003-\$0.41 billion, 2004-\$0.43 billion, 2005-\$0.53 billion)

Conclusion

With improving sentiments across all segments of the industry, the prospects for the infocomm industry appeared to be better over the next two years with expected compound annual growth of 6.5%. The recent Business Expectations Survey² results and the revenue performance for 2003 and projections for 2004 indicated that the slowdown in the domestic infocomm industry had bottomed out in 2003. All segments of the infocomm industry were starting to pick up, especially with the increase in external demand. The export market would increasingly become even more important in contributing to the Singapore total infocomm industry revenue.

As a regional hub, Singapore's infocomm industry continued to be closely tied to the fortunes of ASEAN and the economies of East Asia. The domestic market was small, and would continue to be small relative to the rest of the Asia Pacific³. High growths were projected for developing economies of China, India and ASEAN. Hence, it would be important for Singapore to continue to build on its strengths in order to achieve growth over the long term. Hardware Retail comprised almost two-thirds of export sales in 2003 and indications were that it might continue to be so, at least in 2004.

In 2003, the IT Services and Software segments suffered severe contractions as a result of falls in both the domestic and global demand. However, looking forward, these two segments would be expected to perform better as a result of increasing global demand. On the domestic scene, the situation would be less optimistic with all segments forecasting low growths for 2004. As a matured infocomm economy, the growth rate for Singapore would not be expected to be high, relative to other developing economies. Therefore, the imperative for the Singapore infocomm industry would be to grow the export market.

² IDA conducts quarterly business expectations surveys to gauge sentiments and performance of the infocomm industry sector.

³ IDC, IT spending and Telecom Spending, 2004