CHAPTER 20
SINGAPORE

Introduction. After remarkable 9% growth in 2000, Singapore entered recession in early 2001, with GDP changing -0.2% for the year.

- The subsequent terrorist attack on the United States and its impact on the global economy worsened the existing negative trend.
- Therefore, Singapore may be experiencing the worst recession to hit the city-state since its independence in 1965.

Dynamics

Exports Plunge. Much of the recession can be traced to the plunge in exports.

- On Monday 17 September 2001, Singapore reported a record 30% fall in monthly non-oil exports for August from a year ago. This was the sixth consecutive month of declines in exports.
- Singapore's non-oil domestic exports plunged by a year-on-year 24.2% in July. That fall followed a 16.9% drop in June.

Electronic Vulnerability. Singapore, which was the first Asian nation to go into this recession, has been highly vulnerable to the U.S. economic downturn and the slowdown in global demand for electronics.

- Electronics make up about two-thirds of the country's non-oil domestic exports.
- Singapore has a small domestic market, which means it has few buffers left against a downturn.

Manufacturing Weak. The sharp decline in demand for Singapore's electronics exports has fed through to production.

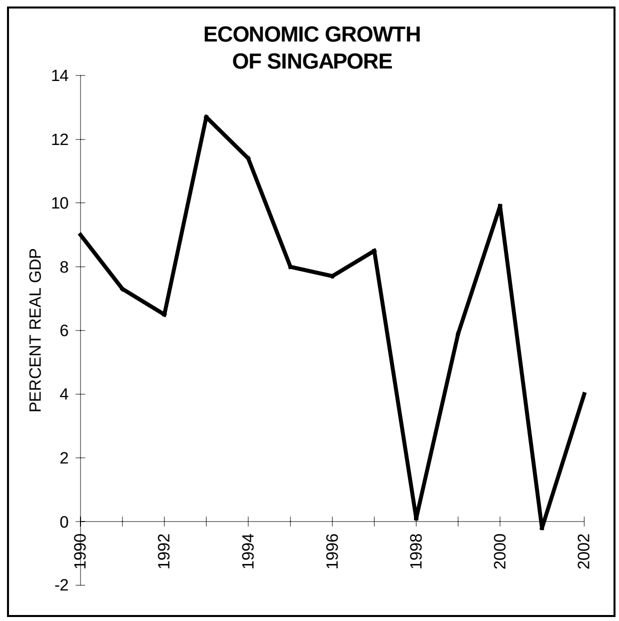
- The manufacturing sector was down a hefty 9.6% in the first quarter of 2001 (from 2Q00 to 2Q01), the weakest growth since the fourth quarter of 1985 and sharply down from the double-digit growth it registered in 1999 and 2000.
- It fell an even sharper 28% from the previous quarter (from 1Q01 to 2Q01).
- Except for financial services, all sectors registered slower growth in the second quarter over the previous quarter.

Figure 20-A. Selected Historical Data

$ Billions (or %)	'97	'98	'99	'00
Gross National Income	101.8	95.1	95.4	92.3
Purchasing Power	91.0	90.6	87.1	113.4
Real Growth (%)	8.5	0.1	5.9	9.9
Inflation (%)	2	-0.3	0.1	1.4
Exports	125.0	109.8	114.6	138.0
To U.S.	20.4	18.7	18.6	19.6
Imports	132.4	101.5	111.0	134.7
From U.S.	17.7	15.6	16.3	17.5
FDI from U.S.	17.5	19.8	20.1	23.2
In U.S.	2.6	1.8	1.4	7.7
Cur Account /GDP %	19.0	24.8	25.9	23.6
Fiscal Balance /GDP %	9.2	3.6	4.5	7.9
External Debt /GDP %	13.8	16.1		

Sources: IMF, ADB, World Bank, U.S. Commerce

Figure 20-B



Jobless Numbers Rise. Unemployment is rising while productivity is falling.

- The Ministry of Trade and Industry has said that as many as 5,600 workers lost their jobs in the second quarter, taking the head count of those retrenched in the first half to 9,000. The ministry estimates 20,000 job losses for 2001.
- Labor productivity fell by 5.5% in the second quarter after turning marginally negative in the previous quarter, while Singapore's unit labor costs for the manufacturing sector rose by a substantial 19% in 2Q01, following a 10% increase in 1Q01.

Government Responses. The government is struggling to stimulate growth. In August 2001, the government opted for a S$2.2B (US$1.3B) stimulus package.

- The economy kept contracting.
- This steep drop in exports makes it nearly certain the government would announce additional stimuli.
- Singapore is also likely to opt for supply-side measures, such as cuts in employer contributions to the Central Provident Fund (the state pension fund).

Pushing String. Will a new stimulus package work? Not decisively. Why not? Such a pump-priming measure in Singapore is ineffective because of the small size and open nature of the economy, which means any stimuli's multiplier effect can easily evaporate.

Structural Challenges. To make matters worse, Singapore's deteriorating economic performance is not merely cyclical. The political leadership is well aware that the economic strategy that delivered such impressive economic growth in the past will not work so well in the future. Why not?

- For starters, regional uncertainties are overshadowing Singapore's previously impressive economic track record.
- Economic competition with China and Northeast Asia is intense.
- ASEAN states are slow to meet the competitive challenge by re-structuring, integrating and liberalizing their economies.
- Singapore is pursuing its own domestic economic re-structuring, while seeking greater openness through regional and bilateral trade agreements.

Success Story

Singapore has, over the years, proven itself remarkably adept at solving whatever problems come its way.

- Not enough land? Reclaim some from the sea. Not enough skilled people? Import the most talented from abroad. Fertility rates falling? Offer baby bonuses to those who deliver.
- Today, unemployment is hovering just above 2% today, compared to 4% in 1998.
- Inflation remains under 2%.
- Unlike its neighbors, Singapore exhibits no signs of capital flight.
- And the central bank's robust reserves are over $70B and growing.

Rising Foreign Direct Investment (FDI). In 2000, Singapore conspicuously succeeded in attracting S$9.2B in FDI, 15% up on 1999. Foreign companies, predominantly from the United States, Europe, and Japan, accounted for 79% of those investment flows.

Financial Muscle. While the rest of ASEAN braces itself against for the effects of the U.S./global economic downturn, the Singapore government and the commercial banks are sitting on a huge pile of cash that can cushion the blow.

- Singapore's super-conservative banking industry is actually over-capitalized. Its capital-adequacy ratios range from 15% to 22% (compared with an internationally accepted minimum of 8%). By February 2001, the total surplus of deposits over loans was S$16B ($8.93B).
- That means in the event of a sharp economic downturn or even recession, banks can easily continue lending without being paralyzed by non-performing loans.
- The government is sitting on huge financial resources that give it lots of elbow room to help offset the external demand shortfall. Consequently, the 2001 budget includes corporate and individual tax cuts plus S$10B in affordable infrastructure spending.

Challenges

Vulnerability. A problem Singapore cannot do anything about—its geographical position—might well be its undoing.

- With just four million people, Singapore is too small to make it on its own.
- So Singapore desperately needs the surrounding countries of Indonesia, Malaysia, Thailand, and the Philippines to provide a stable backdrop to attract investors, while also serving as a vibrant market for its own goods and services.

Best House in a Bad Neighborhood. Unfortunately, political and economic uncertainties are now consuming these ASEAN states and persuading portfolio and foreign direct investors to bypass the entire region for Northeast Asia. A lack of a critical mass as well as tensions in the region may well erode sustainable growth for Singapore in the future.

Northeast Asia on the Rise. Notwithstanding Singapore's past success in attracting FDI, China, Japan, Korea, and Taiwan are attracting a growing proportion of FDI coming into East Asia, at Southeast Asia's expense.

- Further undermining ASEAN is the fact that it is still integrating its less developed and newer members—Vietnam, Cambodia, Brunei, Burma and Laos.
- As with Eastern European countries in the EU, it's difficult to simultaneously deepen economic reforms and widen membership with new countries still struggling to move from central plans to market economics.

China on the Rise. FDI coming into Southeast Asia is down by about 40 to 50% compared to pre-crisis investment figures.

- FDI into China has been soaring.
- China's ascendancy has Singapore pressuring its neighbors to put aside their domestic difficulties in order to rise to the competitive challenge.

Entrepeneurial Shortfall. While the Singapore top-down economic model still appears to have some life left in it, the government is fretting that its people do not have the entrepreneurial urges needed to take advantage of the opportunities in the new economy—explaining its fervent desire to recruit international managerial talent.

- The government says that it wants to move away from rote learning and towards creative thinking and critical thinking skills.
- But it remains to be seen whether the government will relax its authoritarian social norms in order to attract the top creative thinkers from the United States and elsewhere.

Reforms

Reforms at Home. Singapore is not resting on its laurels at home either. It takes the challenge of globalization seriously. In response to the globalization challenge, its war cry is "only the paranoid survive." To attract and retain foreign investment, Singapore is attempting second generation reforms. It is:

- Liberalizing its own economy,
- Embarking on yet another wave of corporate restructuring to ensure it remains globally competitive.
- Putting into practice the corporate governance lessons of the regional financial crisis, and
- Transforming the education and business environments to encourage Singaporeans to take creative risks necessary to make it in a knowledge-based global economy.

Reforming ASEAN. It is no longer enough for Singapore to keep its own house in order. For its own success, the island must help the region to do the same. In this regard, Singapore sees itself as a catalyst or enabler, attempting to cajole the ASEAN states toward free trade and economic integration.

- Intra-regional trade is increasing.
- More air, rail, and road links are increasing the region's connectivity.
- The region is working to reduce tariffs and simplify customs procedures.

Free Trade Agreements (FTAs). But it is no longer enough for Singapore to improve the investment climate in ASEAN. For its own success, the island is aggressively pursuing bilateral free trade agreements with a dozen countries around the world.

- In a further effort to underpin its entrepot status, Singapore has concluded a free trade agreement with New Zealand and is negotiating similar arrangements with Australia, the United States and Japan.
- While this bilateral approach has been criticized by some ASEAN members as undermining the organization's own multilateral tariff liberalization efforts, Singapore has become increasingly frustrated with the group's slow progress.

Conclusion

During the first half of 2001, Singapore fell into recession. This contraction may be the worst since the its independence in 1965. Much of the recession can be traced to a 30% drop in exports. In particular, the crucial U.S. market for Singapore's electronic exports has totally collapsed. In addition, Singapore faces other formidable challenges. For instance, as a small island country, the regional political and economic uncertainties in Southeast Asia are making Singapore's political leaders feel a bit uneasy.

In this regard, the Singapore government needs to nudge ASEAN leaders toward accelerating economic integration. Otherwise, FDI will continue to leave Southeast Asia and head for China and Northeast Asia. The specter of this capital shortfall in Southeast Asia could well fan social unrest and worsen internal security in ASEAN states. Finally, Washington should consider working more closely with the Singapore government to cushion the blow.