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Analysis

Riding the global economic crisis in Singapore.

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Despite an average growth rate of nearly 8 per cent from 2004 to 2007, Singapore was the first East Asian country to fall into a recession from the current global economic crisis after July 2008. This reflects the greater vulnerability of the Singapore economy to global economic shocks.

The exposure of Singapore's banks to sub-prime mortgage is limited, due to its well regulated market. The recession came mainly through the fall of the non-oil exports in manufactured goods, induced by the overall deterioration of economic conditions in the US and Europe.

Economic conditions in Singapore have been affected by the huge loss in wealth from the collapse of the stock market that came with global crisis. This depressed domestic demand, reducing consumption and investment in assets. The immediate concern in the 'liquidity-crunch' from the financial crisis has been to provide sufficient liquidity in the system. To assist companies to get access to credit facilities, the Singapore government announced a S\$2.3 billion loan facility for local companies (including SMEs) through its business financing scheme on 21 November 2008.

Both Europe and United States are still Singapore's key export destinations, accounting for nearly 33 per cent of

the total non-oil exports over the last few years. The ASEAN countries – Indonesia, Malaysia, and Thailand – accounted for nearly 20 per cent and Northeast Asia accounts for around 24 per cent of Singapore's non-oil exports.

A rapid export recovery in Singapore seems very unlikely given the IMF's revised growth forecasts for the major industrial economies – the United States to -0.5 percent, the European Union to -0.7 percent, and Japan to -0.2 percent in 2009 – and the World Bank's downgrade of growth for China from 9.2 percent to 7.5 percent in 2009. It is difficult to see Singapore exporting itself out of this recession in the short haul as it did in the 1997 Asian economic crisis (with a spectacular v-shaped recovery). This crisis is likely to be long and protracted.

The government's fiscal stimulus is also unlikely to have little impact on the growth, given the small share of the domestic demand to total demand, although it should provide some relieve for vulnerable households in the lower income group.

Singapore's economic fundamentals might be strong, but a number of things can be done to cushion the downturn and to promote economic recovery.

Domestic Issues

1. The labour productivity in the economy has been declining. The cost of training is lower during a downturn, so the downturn provides a good opportunity to train and retrain productive workers in the economy. The announcement by the government to set aside S\$600 million for training and upgrading of workers is in the right

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direction to improve the human capital of the workers but hardly adequate. CET programmes need to be targeted at specific sectors and upgrading of skills in both generic and technical skills of workers will be equally important.

2. The evidence is that the duration of unemployment has a direct impact on the re-employment of workers. Workers out of the work for an extended period lose part of their human capital and are unable to secure similar paying jobs. Given that the current recession might be a long and a protracted one, workers require extended period of training and upgrading in specific skills. Training grants need to be extended beyond CET training to provide for general education and skills for workers to acquire post-graduate diploma and even university degrees. This will have a stronger impact on re-employment and retaining productive workers in the labour market.

3. In a long and protracted recession, the economy needs to restructure and new industries with new technologies will emerge to create a robust economic upturn. The structural changes and emergence of new technologies from the current economic downturn in China, European Union and United States will change the global configuration of production networks. New industries will have to be created to link up with new production networks and fiscal incentives will be needed for local firms to innovate and adopt the emerging new technologies.

4. Entrepreneurial and innovative activities are equally driven by large and small firms. Currently, there is only a limited role for small firms in the manufacturing due to the dominance of larger firms (multinational corporations and Government linked-companies). A recent OECD report highlights the role of innovation by smaller firms in countries such as Korea, Hungary, Luxemburg, Portugal, Austria and Belgium (OECD Science, Technology, and Industry Outlook, 2008).

The current downturn provides an opportunity to develop stronger and more innovative SMEs in Singapore.

5. There is a need to scale back government service fees to ease the pain of the downturn on local firms and households. There has been a hike in government rates and fees since 2004. As unit labour costs fell (by -2.7 per cent), services costs increased (by 6.2 per cent) between 2004 and 2007 (see ESS, Third Quarter Report, MTI).

6. In the current downturn, companies should be encouraged to make wage adjustments rather than quantity adjustments in terms of retrenchment. In 2004, the government introduced the wage restructuring policy and the key objective of the policy is to increase the flexibility of the labour market to external shocks by allowing greater flexibility in wages.

External Issues

ASEAN (ASEAN-10) is Singapore's hinterland with a population of nearly 540 million and it can play an important role in stabilization and growth in the region. A larger single market in ASEAN would provide a stronger economic base to manage and ride out systemic external shocks such as the current global crisis.

The economic crisis provides an ideal opportunity to accelerate the integration of ASEAN Economic Community (AEC). Intra-regional trade in ASEAN and Asia will be key factors in export growth as export markets in United States and European Union lag. A single market would heighten regional competitiveness, attract to foreign direct investment and facilitate the expansion of trade flows in the region and globally. With the emergence of stronger China from the current global crisis, ASEAN can complement the new industrial structure that will emerge in Asia.

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