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## SINGAPORE

## 2003: RECESSION AVERTED

The Singapore economy avoided a SARS-induced recession to register growth of 1.1% in 2003. In first-half 2003, the economy was severely affected by SARS as well as the uncertainty related to the Iraq war. The second half of 2003 saw a significant rebound based on good growth in the major world economies, as well as a revival of the global electronic demand.

The SARS outbreak highlights the vulnerability of the economy and its significant dependence and linkages with the international markets. Tourist arrivals plunged by almost 70% at the height of the SARS outbreak, and many tourism-related sectors languished in inactivity.

The wholesale and retail sector grew by 6.7% despite the negative impact of the SARS outbreak during the first half of the year.

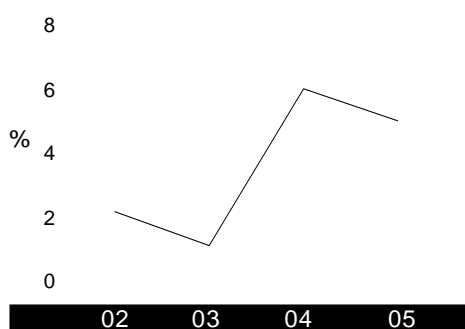
Other than the wholesale and retail sector, only the manufacturing sector, financial services sector and 'others' recorded positive growth. The manufacturing sector grew by 2.8% in 2003, compared with 7.8% in 2002. Its growth is largely attributable to the positive performance of electronics, chemicals and biomedical manufacturing. An increase in commercial bank lending, offshore banking, and stockmarket activities enabled the financial services sector to reverse the sharp contraction of 6.3% in 2002 to grow by 3.7% in 2003.

Total employment during 2003 dropped by 17,600, and the unemployment rate crept to 4.7% in 2003, more than twice that seen in the years before the Asian Financial Crisis.

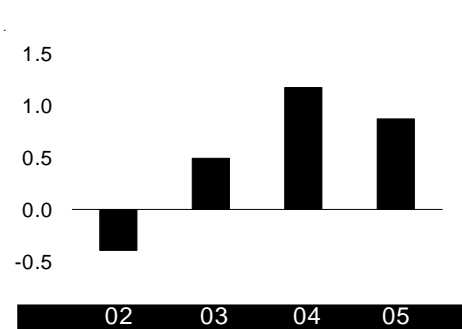
## 2004–2005

Job creation and rising unemployment will continue to be issues of concern in 2004–05. Unemployment can be a severe dampener on consumption, leading to weak growth. Close scrutiny of manpower statistics reveals that unemployment is not a cyclical phenomenon but has become a structural one. Inflexibility in wage adjustment, mismatch of skill requirements, and global challenges posed by the cheaper resources available in emerging economies have made job losses, once considered transient, permanent. Outsourcing of 'commoditised' services, such as call-centre services and accounting and bills processing, to low-cost countries also poses challenges to Singaporean workers. Lower skilled workers, older workers, and even professionals are now at risk. The government has sought to address the situation by implementing new programs and tinkering with existing policies. The Singapore Workforce Development Agency (WDA) was set up in September 2003 and is tasked with developing and implementing holistic strategies to increase the employability and competitiveness of the workforce by working closely with industries to

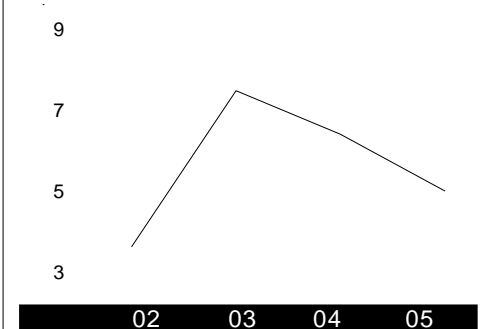
GDP growth



CPI inflation



Export growth



identify skills and training needs, and developing programs to help job-seekers acquire the skills for jobs in these industries.

The government has also urged unions/workers to implement the monthly variable component (MVC) by setting aside 2% or more of basic wages to build up the MVC. Managerial staff have also been encouraged to accept a higher proportion of their salary (as much as 50%) as variable wage. This is thought to give companies more latitude to cope with changing international demand. The government also revised the long-term CPF (social security) contribution rate to 30–36%, down from the 40% level set in 1986. On 1 October 2003, the overall CPF rate was cut to 33%, and 30% for workers aged 50 years or more.

In 2003, the government adopted an expansionary fiscal policy stance. This is expected to continue in 2004. In the most recently announced Government Budget (for Financial Year April 2004–March 2005), the estimated budget deficit will be 1.1% of GDP. Two off-budget packages were introduced in 2003 to help Singaporeans and businesses cope with the economic downturn due to SARS outbreak and the CPF changes. A S\$1 billion relief package aimed at boosting consumer sentiment and supporting small and medium enterprises (SMEs) was announced at the end of August 2003. The government had also announced it would bring forward about S\$600 million worth of projects over the next three

years, and streamline payment procedures to give the construction sector a nudge.

The Monetary Authority of Singapore (MAS), the *de facto* central bank, reaffirmed that the exchange rate policy would remain 'neutral' in so far as the nominal effective exchange rate (NEER) would follow a 0% appreciation path, fluctuating within an undisclosed band. The aim remains price stability and sustained confidence in the currency despite concern about internationally transmitted deflationary pressure on export competitiveness.

Attracting more foreign investments to supplement indigenous investments is still key, but Singapore faces severe competition from many countries equally thirsty for foreign capital and technological know-how. In 2003, 77% of the total investment commitments of US\$9.4 billion were foreign, 86% of the foreign investment commitments were in manufacturing and the remaining 14% in services. The search for foreign capital and expertise that will find it cheap to make use of the world class infrastructure facilities and relatively expensive, but more skilled, workforce is not going to be an easy one.

Fostering a more vibrant SME sector has become a major objective in economic restructuring. SMEs comprised 90% of all businesses in Singapore, providing employment for half the workforce and contributing almost 30% of the country's GDP. To help SMEs grow and upgrade, more than 300 awareness and networking

programs were organised. A cyber-portal to alert SMEs of business opportunities in the public and private sectors has also been established. Collaborating with private trade associations and business chambers, the government has trained a group of facilitators that will advise SMEs on how to benefit from the various Free Trade Agreements that Singapore has concluded with major world economies.

## RISKS AND ASSUMPTIONS

The outlook for the economy over the next two years is predicated on three major assumptions. We have assumed that the major economies' synchronised recovery will continue, the Chinese economy will not become overheated, and terrorism and pandemics will not happen again. The United States is expected to maintain pro-growth macroeconomic policies in this election year. The twin deficit problem is not expected to deteriorate into an international financial crisis. The Japanese economy, together with the EU economy, is expected to sustain and build on the improved confidence in manufacturing production and export demand.

Taking into account both external influences and domestic efforts made to sustain growth, the Singaporean economy is expected to grow at a rate of 6% for the year 2004, and at 5% for 2005. The inflation rate is expected to remain low at 1.2% for 2004 and 0.9% in 2005.

## Manufacturing investment commitments in 2003

Singapore has remained attractive as a location for high value-added manufacturing activities. In 2003, investment commitments in terms of fixed assets reached S\$7.5 billion, of which 84% were foreign. Electronics remain the top activity for investments, while chemicals and biomedical manufacturing are also chalking up significant shares.

