

Facing up to Second-Half Challenges

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Domestic demand and govt's ability to provide stimulus will likely help S'pore withstand external demand slowdown

SINGAPORE'S blistering economic growth rate of 18.1 per cent year on year in the first half of 2010 makes it one of the fastest-growing nations in the world.

The growth rate of 19.3 per cent in the second quarter is the fastest since the government began releasing quarterly GDP figures in 1975. In addition to increased tourism and continuing expansion in financial services, segments of manufacturing such as pharmaceutical and electronics output also contributed to this exceptional growth.

The high growth figure also underlines the fact that Asia is driving the current global recovery. At the current juncture, the United States and Europe are still struggling with the potential of a double-dip recession and with weak job creation.

On the other hand, many Asian economies are dealing with overheating and inflation. For example, China grew at 10.3 per cent in the second quarter vis-à-vis 11.9 per cent in the first quarter as the government introduced a slew of measures to cool the housing market, while India is dealing with higher fuel and food prices.

The numbers for the Singapore economy also reflect the fact that the city-state is increasingly leveraging on Asia as a source of growth. While the two integrated resorts (IRs) that opened earlier this year have contributed to a surge in visitors' arrivals in Singapore, the average year-on-year increase in arrivals in May from Asian countries such as India, Indonesia and Malaysia was almost triple that from countries outside the region.

Similarly, Singapore's exports of electronics and pharmaceuticals to East Asian nations are one of the key factors driving overall volumes since the start of the year.



Jobs and wages

Singapore's strong economic recovery has led to more people securing jobs. The overall unemployment rate fell from a peak of 3.4 per cent in Q3 2009 to 2.2 per cent currently.

Labour turnover rate has also increased, signalling a tightening of the labour market. This labour market scenario, though providing a strong support for the domestic demand in the face of worsening external demand later in the year, is likely to result in wage increase as firms raise wages to attract and retain workers.

The very strong economic growth and tight labour market are a reflection of not only the global economic recovery but also the appropriateness of the public policies during 2008-09 crisis.

The government had introduced two extraordinary measures - Jobs Credit Scheme and Special Risk-Sharing Initiative.

In response to the global credit crunch, the Singapore government decided to take on a significant share in the risks of bank lending so as to ensure that viable companies continue to have access to credit to sustain operations.

By the end of 2009, the Special Risk-Sharing Initiative and the enhanced business financing schemes have catalysed more than 14,000 loans worth about \$8 billion. More than 13,000 companies, of which 90 per cent were small and medium enterprises, have benefited from the scheme. This supported the city-state's manufacturing sector and trade. On a year-on-year basis, manufacturing output increased 58.6 per cent in May 2010, exceeding all expectations.

The non-oil domestic exports - a barometer of the health of the economy - jumped 29 per cent in June from a year ago, faster than the 24 per cent figure the month before.

The improvement in production and trade has spilled over to labour demand. This is also supported by the new IRs and other infrastructure and development projects initiated by the government during the crisis. However, it was the Jobs Credit Scheme which helped the labour market for a quick turnaround in the latest financial crisis.

Anecdotal evidence suggests that the savings and additional cash flow from the scheme were quite significant, especially for labour-intensive firms, and helped to save several jobs.

The economic downturn also became an opportunity for the Singapore policymakers to explore new growth strategies, and investments in skill upgrading, training and infrastructure to improve competitiveness of the economy in the long run. These have begun to pay off.

Drug giants such as Pfizer, Roche and GlaxoSmithKline have all chosen Singapore as a key operations base for Asia and have expanded in Singapore this year.

Singapore's drive to become a financial centre has also benefited the economy in serving clients in India, China and the Middle East. Its bank secrecy laws remain concrete and the supply of potential customers is rising as new millionaires proliferate through the region.

Tourism receipts

The city-state's establishment of two the IRs is a drive to double tourism revenue by 2015.

According to the Singapore Tourism Board, tourist arrivals are likely to increase to 12.5 million in 2010, implying 30 per cent growth compared to last year. Tourism receipts are estimated to surge 50 per cent to reach \$18.5 billion.

On the back of the latest figures, the Ministry of Trade and Industry has projected that the economy will grow at 13 to 15 per cent in 2010, an upward revision from the earlier forecast of 7.0 to 9.0 per cent. This is much higher compared to the International Monetary Fund's economic growth rate projection of 10.0 and 8.8 per cent for China and India respectively. Faster growth than regional powerhouses is likely to increase the attractiveness of the city-state's stocks and put pressure on policymakers to check inflation with a stronger currency.

The Monetary Authority of Singapore manages the external value of Singapore dollar, instead of interest rates, to contain inflation. It has already moved to a tighter monetary policy stance in its last monetary policy meeting in April.

Now the risk is a global slowdown in the second half of 2010. However, the resilience in domestic demand emanating from close to full employment labour market, as well as the government's ability to provide appropriate fiscal stimulus, will likely help Singapore withstand the forthcoming external demand slowdown.

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