The Global Economic Downturn and Singapore’s Economy
ESU Press Release, 23 October 2001

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The World Economy After September 11

Most analysts will agree with Alan Greenspan, the Chairman of the Federal Reserve Bank in the United States, that it is difficult at this time to estimate the full impact of the September 11 terrorist attacks on the US economy in particular and the global economy in general. But most of us also agree that as a result of the attacks, a deepening of the global economic slowdown will occur this year and may very well persist into 2002. The United Nations Conference on Trade and Development (UNCTAD) has forecasted that world foreign direct investment this year will be about US$760 billion, down from US$1271 billion last year. This will be the first drop since 1991. HSBC Holdings forecasts that global trade, after surging 12.6% in 2000, will expand by a mere 0.9% this year and just 2% in 2002.

Undoubtedly, these recent economic developments portend significant declines in the economic growth rates for most parts of the world. Recent estimates by the Morgan Stanley & Co lower the growth rate forecasts for the United States, Europe and Latin America to a range of 0.7–1.5%. Even before the September 11 attacks, threats of an economic slowdown in the mighty US economy have forced many countries to revise downward their economic growth targets.

Uncertainties in the global markets will remain high as unpredictable reactions to the US-led air strikes on Afghanistan emerge in various parts of the world, including in Singapore’s neighboring countries. With significant economic interdependence, particularly in trade with the US economy, any incipient recovery process in East Asian economies is likely to be dampened. In its latest report issued on October 17, the World Bank has forecasted sharp declines in the GDP growth rates of the main five East Asian economies (Indonesia, Korea, Malaysia, Philippines and Thailand), from 6.9% in 2000 to 2.3% in 2001.

Whither the Singapore Economy?

The September 11 attacks could not have come at a worse time for Singapore. Preliminary estimates for the third quarter showed that real GDP contracted by 5.6% over the same period last year. This reflects a 28% fall in non-oil domestic exports and the
dismal performance of the manufacturing sector as a result of the global electronics slump. Worse, the recession has spread to the services sector, with industries there registering negative growth of 0.4%. Our projection for the country’s growth rate in 2001 is in agreement with the government’s recently revised growth forecast.

The economic outlook for 2002, however, is plagued by uncertainty, as reflected in the wide range of our forecasts of GDP growth under pessimistic and optimistic scenarios. These lie between -1.6% and 4.4%, in contrast to the government’s range of -2% to 2%. The pessimistic outlook for Singapore is driven by the gloomy prognoses for the world economy as well as for the demand for electronics. In addition to threats of sharp falls in the GDP growth rates of key trading partners, another particular concern for Singapore is the sharp hikes in the costs of global trading, for both air and sea cargo, triggered by higher insurance premiums for the airline and shipping industries. Similarly, confronted with a heightened sense of insecurity, visitors to Singapore and the hotel occupancy rate have plummeted sharply, the latter by about 20 percent from its level during the same period last year.

While our pessimistic forecast for the GDP growth rate in 2002 closely aligns with the lower bound for the government’s projection, the optimistic number is more than double the government’s upper bound. The key reason for this more upbeat projection is the possibility of a stronger electronics market in 2002. An optimistic reading of the latest data on the global electronics cycle provides encouraging indications that a mild recovery may be close at hand. New orders of electronics in the US have increased by 1.6% in August on a month-on-month basis while those for semiconductors shot up by nearly 14%. Global semiconductor sales, which are highly correlated with Singapore’s electronics exports, also appear to be stabilizing after their recent precipitous declines.

The Semiconductor Industry Association (SIA) remains confident that the industry’s recovery will begin in the current quarter but noted that the speed at which it will turn around has been dampened by the terrorist attacks in the US. Our optimistic scenario, in which global chip sales stage a steady recovery throughout next year, offers hope that Singapore’s economic growth will move back into positive territory starting from 2002Q2 (see the chart). Needless to say, this outcome is contingent on the terrorist attacks and subsequent counter-strikes having only minimal disruptive effects on the world economy. Indeed, some analysts expect the pump priming efforts of the US government in the form of a fiscal stimulus package of over US$100 billion and lower interest rates to boost growth in the US economy to 3–3.5% in 2002.
The Off-Budget Fiscal Stimulus

Another reason for optimism is the recently announced off-budget measures. Of the $11.3 billion package, we assess that around two-thirds amounting to $7.7 billion will be fully disbursed in the economy in 2001–2002. Assuming that the July measures amounting to $2.2 billion impact on the economy over the same time frame, the combined package of $9.9 billion will further stimulate GDP growth next year. Around 60% of the October off-budget package is targeted at stimulating the business sector and pump priming the economy through infrastructure spending, while the rest will target consumer spending. With regard to the first objective, tax rebates for corporate sectors and other reductions in operating costs should assist the business sector to take advantage of emerging opportunities, such as the potential recovery of the global electronics cycle in 2002.

As for domestic demand, the measures to help the lower income groups and the unemployed – who are likely to have higher marginal propensities to consume – will provide some measure of support to private consumption, which has slowed down in recent months in tandem with the weakening economy. Specifically, the New Singapore Shares scheme promises to provide temporary, but potentially significant, relief to liquidity constrained consumers.

Despite their budget constraints, commitments by key trading partners of Singapore to implement anti-recession packages are another source for the optimistic outlook in 2002. For example, Hong Kong has recently announced public spending measures while Malaysia has just released details of a fiscal stimulus package worth RM7.3 billion that included cuts in personal income taxes and import duties designed to spur consumption.

![Forecasts of Singapore GDP Growth](image_url)