Singapore: The 'Recovery' Continues

by Martin Chew Wooi Keat

In April, United Overseas Bank of Singapore laid off another 100 employees. Unlike the last time, when UOB fired 435 employees, giving them until lunchtime to pack and get out, this time the dismissed staff was given a more dignified exit: The bank extended the privilege until the end of the day. Those who had a lot to carry were allowed to return the following day. However, by doing so, they forfeited the free cab ride home.

Singapore's Gross Domestic Product, which was collapsing at a 6% pace in the third quarter of 2001, contracted another 2.6% during the first quarter of 2002. This decline was the best showing in nine months, but it was slightly below market expectations (i.e., did not contract as much as expected). The goods-producing industries contracted by another 6.1% during the same period, largely due to a manufacturing decline as a result of sluggish demand for electronics. Economists now project that the Singapore economy will turn in flat growth at best in the second quarter, but they wishfully add that "stronger numbers" (i.e., "recovery") are expected to emerge in the second half.

As the Singapore economy continues to "recover," 21% of last year's graduates were still jobless after six months, while 53% only received, at most, a single job offer. The unemployment rate is currently around 5-6%, with more than 100,000 unemployed, in a labor force of around 2 million.

Singapore's predicament today is the direct result of allowing its economy to be transformed by foreign investment into an appendage of the "New Economy." While this made Singapore look like the fiercest of the "Asian Tigers" during the hot-money boom of the mid-1990s, it also took a full hit when the bubble burst. In 1980, for instance, computers and data processing equipment contributed to only 1.75% of Singapore's manufacturing employment, and 2.5% in terms of manufacturing value. By 1999, this rose to 13.5% of manufacturing employment and 24.5% of manufacturing value.

Petroleum and textiles moved in the opposite direction. In 1980, oil refining contributed to 1.25% of the manufacturing employment, but 18% of manufacturing value. By 1999, refining provided for just 1% of manufacturing employment, and had shrunk to 4.5% of manufacturing value.

For textiles, in 1980 it was 13% of manufacturing employment, and 5% of manufacturing value. This took a sharp drop by 1999, to only 3% of the manufacturing work force, and 1% of manufacturing value.

If semiconductors and communications equipment are added up together with computers and data processing equipment, then in 1999, these electronic sectors absorbed 31% of the manufacturing work force, and contributed 40.5% to manufacturing value. In 1999, North America absorbed $31 billion (nearly one-third) of Singapore's total exports of $107 billion, out of which $16 billion were electronics.

The relative stagnation of the petroleum refining sector, compared to the electronics sector, reflects the policy of the Singapore government to shift industry focus from physical, capital-intensive sectors to "knowledge-based," New-Economy sectors. Average simple refining margins in Singapore fell to a *negative* 81¢ a barrel last year, compared to a 23¢ profit in 2000.

However, with the bursting of the New Economy bubble, exports of Singapore's electronic products fell 18% in March from a year ago, while non-electronic products declined by 16%. In terms of markets, exports to the United States fell 23% in April from a year ago. Exports to the European Union were down by 22%, and those to Japan slumped by 14%.

Low chip prices caused over $100 million in losses for Singapore's Chartered Semiconductor Manufacturing, the world's third-largest contract maker of computer chips, during the first quarter of 2002, after a net loss of $127.2 million in the fourth quarter of 2001.

New Debt

To keep operating, Singapore's corporations have been resorting to loans. Singapore's corporate debt rose by a whopping 43%, to $39.3 billion, last year, according to the Monetary Authority of Singapore. Issuances denominated in foreign currencies amounted to 69% of the total, while the rest was in local currency.

Corporate Singapore is able to raise such loans to sustain itself because of its role as the capital flight center of Southeast Asia. Singapore's role in this capacity was in fact built up by the Anglo-American financial oligarchy (see **Table 1**).

TABLE 1

Foreign Direct Investment Into Singapore

(Millions Singapore $)

Year	Manufacturing	Commerce, Financial, Services
1994	4,725	6,515
1995	3,483	5,677
1996	2,441	9,184
1997	5,877	8,989
1998	2,513	9,728

Source: International Monetary Fund 2001 report, "Singapore: Selected Issues."

As the depression worsens, Singapore is turning into a land of debtors—where many people can no longer be described as asset-rich and cash-poor, but rather asset-poor and cash-poor. This is because much of the money is tied up in property, and as values have shrunk, their property is worth less than the loan used to buy it. They are the new class of Singaporeans—*negative asset* owners. And their ranks are not confined to those who bought private housing. Many, in fact, are buyers of Singapore's Housing Development Board (HDB) apartments. On March 31, 2001, the Singapore HDB had the staggering sum of $60 billion in outstanding mortgage loans. Singapore is a small country with perhaps 2.8 million people living in public housing. Assuming the $60 billion was evenly spread, every HDB dweller would, in effect, be $21,430 in debt to HDB.

Faced with a plunge in demand for public housing, the HDB announced in January that it has stopped building new apartments, and is trying to clear some 17,500 unsold apartments. "Until the supply is brought back down to a reasonable level, it's not prudent for us to build new flats," Minister for National Development Mah Bow Tan told reporters.

Global Collapse

Many countries in Southeast Asia imitated the Singapore model of allowing their national economies to be shaped by foreign investors, into a mecca of consumer electronics and financial speculation (two-thirds of Singapore's work force is in the service sector). There is growing realization across Asia, however, of the systemic nature of the present crisis. Concerns have been raised on the deflationary impact of a weaker dollar on the rest of the world, and the specter of a dollar collapse bringing the entire global economy down with it.

The *Singapore Straits Times* ran an article by Lim Say Boon, director of the Overseas Chinese Bank Corp. Investment Research, stating: "The United States is, by conscious policy or through market forces, exporting its economic weakness to the rest of the world. And the struggling Japanese economy is an obvious weak link in the global economy. . . . The Fed Funds rate has already been cut to a 40-year low [and even so] the Fed has run out—or has come pretty close to running out—of monetary ammunition in its fight. . . . Too rapid a weakening in the U.S. dollar will do two things: One, it will further weaken the U.S. appetite for imports, endangering the recovery in our export growth. Two, it will make economies with U.S. dollar-pegged currencies such as the [Malaysian] ringgit very hard acts to follow." The article further pondered: "Indeed, it may be asked whether Asian economies—already so dependent on the U.S. as an export destination—can handle even a gradual decline in the value of the U.S. dollar."