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Bracing for tougher times

IS THE Singapore economy headed for troubled times? Wire reports quoting economists adopt the usual alarmist tone, suggesting that South-East Asia's strongest and steadiest economy was succumbing to the effects of a worsening global economy, to technical and to real recession. Coupled with the performance of the republic's dollar, which has just hit an 11-year low, one can almost smell panic in the air. The Singapore Government has lowered its forecast for the year's gross domestic product (GDP) to 0.5-1.5 per cent, from 3.5-5.5 per cent earlier and 5-7 per cent at the start of the year. The second quarter's GDP contracted 0.8 per cent and it was the second quarter of slowdown.

Other countries in the region are supposed to be scared sick, to brace for even worse prospects. When the outlook for such a solid economy is painted black, others seemingly stand little chance to do better. It is difficult to ignore such reports, though. After the lessons learnt from the Asian financial crisis, countries in the region have become ultra-sensitive to bad news. Talk of the US economic slowdown earlier this year, for example, affected investor sentiments throughout South-East Asia and beyond. The slowing demand for electronic products in the US seems to have hit Singapore industries very badly, causing the manufacturing sector in the republic to slump 6.6 per cent. Others, including Malaysia, would have been affected too.

But must Singapore's performance necessarily hurt Malaysia, Thailand, Indonesia and the other members of the Association of South-East Asian Nations? When the baht was effectively devalued in July 1997, the contagion effect was gradual yet certain, and of course devastating. Only Malaysia and Singapore managed to stave off the worst of the impact but their economies reeled from it nonetheless. In the same manner, Singapore's economic performance can be a rough gauge for how the other economies in Asean are doing. Given its position as a centre for the region's financial, trade and investment activities, Singapore's well-being is influential on intra-Asean trade and investment. It is a simplistic yet reasonable assumption to make that if Singapore is heading downhill, some of the economies in the region are already near the bottom of the hill.

Malaysia will undoubtedly be affected by Singapore's dismal economic performance because it trades and does a lot of business with its southern neighbour. Malaysia has also felt the effects of the global slowdown, caused primarily by the US deceleration. Prime Minister Datuk Seri Dr Mahathir Mohamad, who is also Finance Minister, hinted last month that the second quarter GDP growth might not be as good as expected and could be at about the first quarter's level, which was 3.2 per cent. Some economists think April-June growth may be as low as 1 per cent. After last year's 8.3 per cent growth, the outlook is rather gloomy.

But not as gloomy as Singapore's, probably. Malaysia's biggest advantage is that it is not as dependent on electronics as its neighbour. Of late, the revival of the palm oil sector is giving the Malaysian economy a boost. The commodity's price has strengthened to close to RM900 a tonne. International reserves as at the end of June stood at RM100 billion and the ringgit is not any under pressure. Both inflation and unemployment are below 3 per cent. The country is enjoying trade surpluses and the economic recovery, although a little dented, seems bent on completing its course.

It must, nevertheless, manage perception and confidence, especially among investors and consumers. Spooky reports by the media, economists and analysts, it has been proven, could be equally damaging if not properly countered and managed.

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