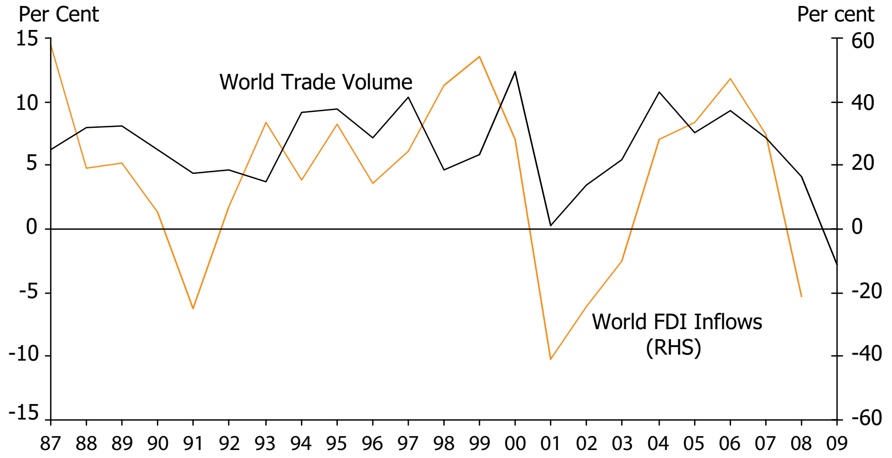
# SINGAPORE'S TRADE AND INVESTMENT TRENDS: A COMPARISON WITH PAST DOWNTURNS

The views expressed in this paper are solely those of the author and do not necessarily reflect those of the Ministry of Trade and Industry or the Government of Singapore.

## WEAK GLOBAL OUTLOOK

Global cut-backs in consumer and business spending, as well as disruptions in financial systems, have significantly affected worldwide trade and investment flows. In its most recent *World Economic Outlook Update* published on 28 January 2009, the International Monetary Fund (IMF) projected that the volume of world trade in goods and services would contract by 2.8 per cent in 2009, a sharp fall compared to the increases of 7.2 per cent and 4.1 per cent in 2007 and 2008 respectively. In a similar manner, global investments flows are also likely to be negatively affected by falling corporate profits and tighter credit conditions. The United Nations Conference on Trade and Development (UNCTAD) has estimated that global Foreign Direct Investment (FDI) inflows declined by 21 per cent in 2008, and are likely to continue falling through 2009[1] (Exhibit 1). These developments will have an impact on Singapore's near-term trade and investment outlook.

**Exhibit 1: Changes in World Trade Volume and World FDI Inflows**



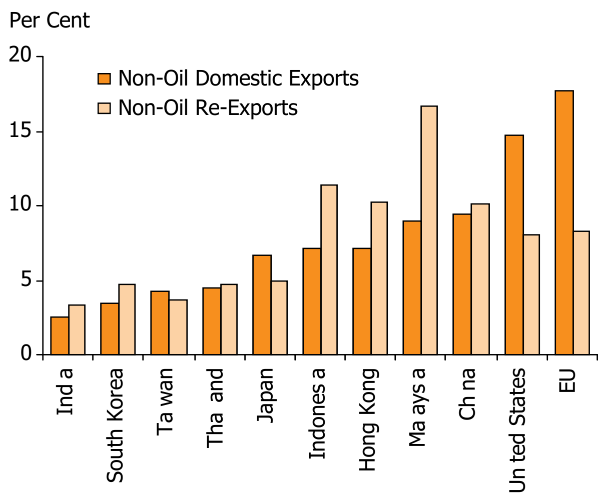

2008: estimates; 2009: forecast
Source: IMF and UNCTAD

## SINGAPORE'S EXPORT STRUCTURE

Singapore has historically been reliant on external trade. From 2004-2008, total trade was about 3.5 times our GDP, and net exports were about 27 per cent of our GDP. Singapore's key export partners included Malaysia, Indonesia, Hong Kong and China, as well as the G3 economies (Exhibit 2). Electronics products, comprising office and data machines, telecommunications apparatus and electrical valves formed 51 per cent of Singapore's total non-oil exports, followed by machinery and transport equipment excluding electronics, and manufactured goods (Exhibit 3).

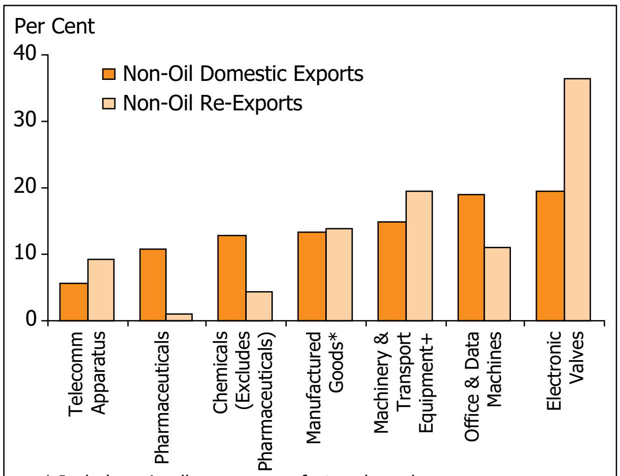
[1] UNCTAD press release, "Global Foreign Direct Investment now in decline - and estimated to have fallen during 2008," 19 January 2009.

**Exhibit 2 : Share of Singapore's Non-Oil Exports to Key Export Destinations, 2004-2008**




Source: International Enterprise Singapore

**Exhibit 3 : Share of Singapore's Non-Oil Exports to Key Export Destinations, 2004-2008**

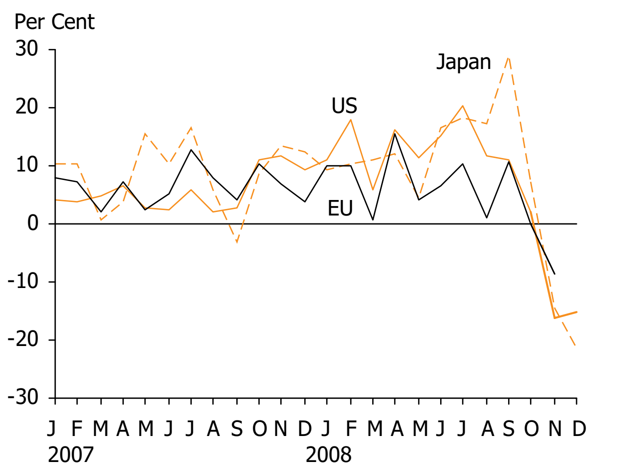



* Includes miscellaneous manufactured goods
\+ Excludes electronics
Source: International Enterprise Singapore

## IMPACT ON MARKETS AND PRODUCT SEGMENTS

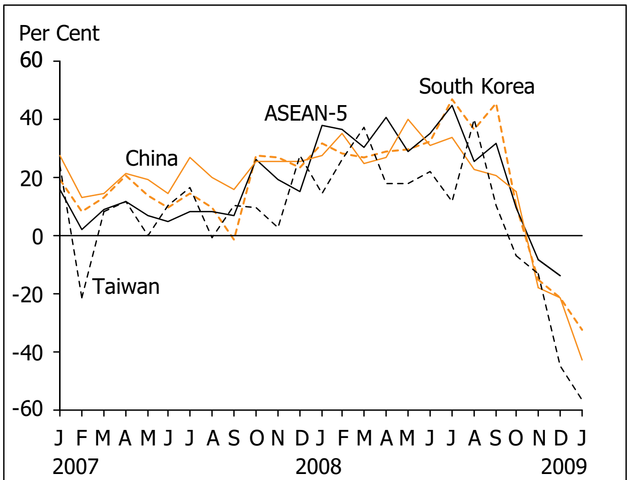
The synchronised economic downturn has hit both final and intermediate demand for Singapore's exports, and across all the key export destinations. Imports by Singapore's key markets have plunged in recent months (Exhibits 4 and 5). Tightened credit, falling equity prices and dismal consumer and business confidence have caused households and businesses around the world to cut back on expenditure. For instance, a recent survey by Fitch Ratings indicated that companies in Europe are planning to cut back on capital expenditure in 2009 by about a third on average[2]. Shrinking final demand has directly led to a sharp decline in global industrial activities. For example, the JPMorgan Global Manufacturing Purchasing Managers' Index (PMI) - a leading indicator for global manufacturing activity - has signalled contractions for eight consecutive months as of January 2009.

**Exhibit 4: Changes in Imports**




Source: CEIC

**Exhibit 5: Changes in Imports**




Source: CEIC

[2] Financial Times, "Companies' capital spending 'to fall by a third,'" 8 February 2009.

As a result, Singapore's non-oil export figures have been sluggish since the middle of 2008. Non-oil domestic exports (NODX) contracted by 18 per cent year-on-year in the fourth quarter of 2008, and plunged further by 35 per cent in January 2009, the sharpest contraction since 1986. Similarly, non-oil re-exports (NORX) fell by 8.0 per cent year-on-year in the fourth quarter of 2008 and 36 per cent in January 2009.

## COMPARISON WITH PREVIOUS DOWNTURNS

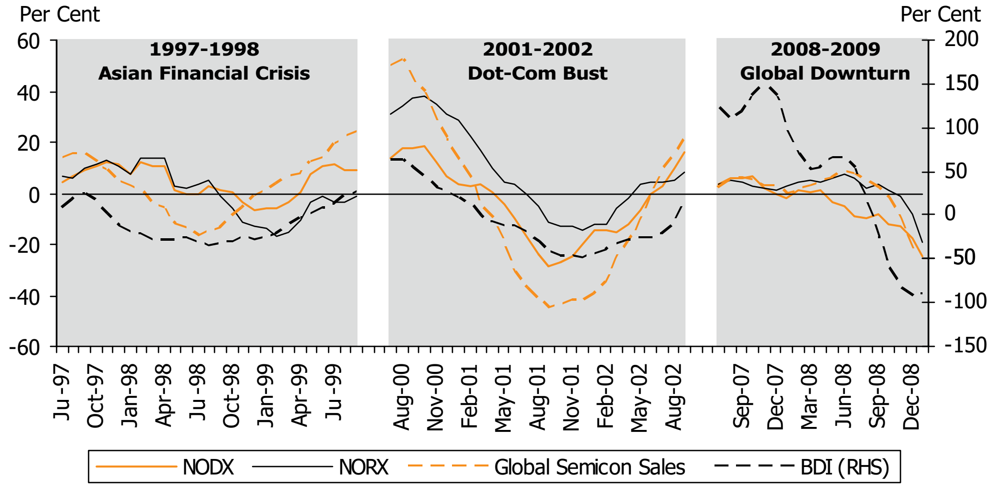
In this section, we compare Singapore's recent trade performance with its performance in past crises, namely the 1997-1998 Asian Financial Crisis and the 2001-2002 Dot-Com Bust. Unlike widely available cross-country comparisons, this approach would provide us with insights unique to Singapore, and allow us to contrast current economic challenges with those experienced previously.

As shown in Exhibit 6, in addition to trends in Singapore's NODX and NORX, we have included global semiconductor sales and the Baltic Dry Index (BDI). The former is often taken as a proxy for global demand for electronics products, which represents a significant proportion of Singapore's non-oil exports. The BDI measures changes in the cost to transport raw materials and is considered a leading indicator for global trade.

There are two key observations. First, Singapore's exports have fallen more sharply in the recent period as the current crisis is more widespread than past recessions, affecting many countries and industries. In 1997-1998, the impact of the Asian Financial Crisis was largely contained within Asia, and was financial in nature. External demand, especially in the developed economies, was not as severely affected in 1997-1998. As a result, the contraction in NODX during that period was not drastic and the recovery was relatively quick. In the 2001-2002 Dot-Com Bust, the global IT industry was affected by massive IT over-investments by firms, which led to large-scale cancellations of electronic orders. However, the contraction in Singapore's exports was relatively short-lived, and a strong rebound took place largely because of growth in our regional markets, especially China. Non-oil exports, in particular electronics, recorded a swift improvement in the latter half of 2002. In addition, Singapore's export recovery was aided by an expansion in pharmaceutical and petrochemical exports which recorded healthy growth in 2002.

Second, the recent declines in NODX and NORX have been simultaneously sharp, unlike past downturns. During the Asian Financial Crisis, NORX declined more substantially than NODX, as Singapore's regional re-export markets were severely affected during that crisis. During the Dot-Com Bust, the slowdown in NORX lagged NODX and the decline was less significant. This was because more than 20 per cent of our NODX went to the US, which was deeply affected by the bust. On the other hand, a much smaller share of our NORX went to the US. Instead, major NORX destinations such as China, Hong Kong and Korea were still registering positive growth in electronics re-exports through the Dot-Com Bust.

**Exhibit 6 : Changes in Singapore's NODX, NORX, Global Semiconductor Sales and Baltic Dry Index (3-Month Moving Average)**




Source: International Enterprise Singapore, CEIC and Bloomberg

In general, Singapore's exports have been more severely affected during the current downturn than in past crises. In a recent report, the Economic Intelligence Unit (EIU) has noted that importers in developed economies would run down their inventories before placing new orders. As inventory levels have remained high in the US and Europe, Asian export figures will suffer further sharp declines until inventories in the developed countries have been reduced to sufficiently low levels[3]. As a result, the outlook for Singapore's exports remains weak, as clear signs of a persistent recovery in consumer sentiment and industrial production, particularly in the developed economies, have yet to become apparent.

## IMPACT ON GLOBAL FDI INFLOWS

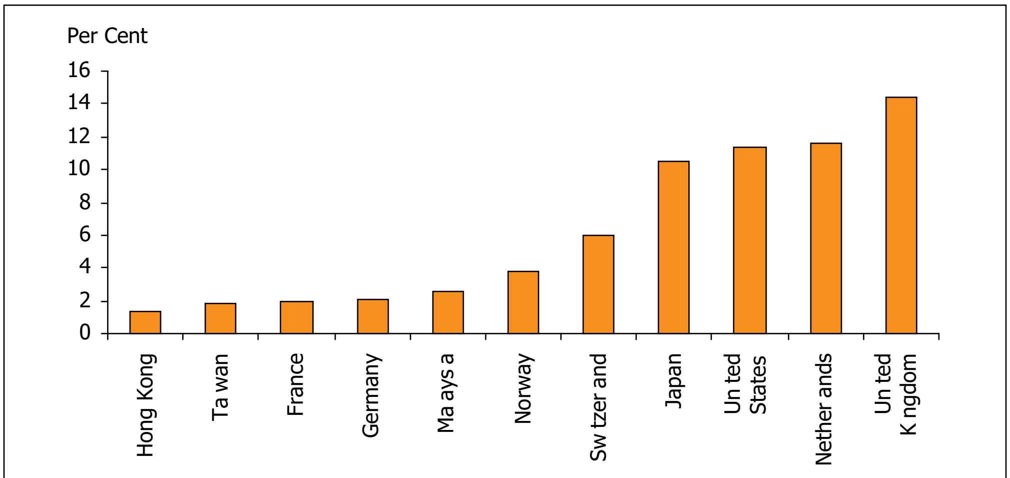
The global investment environment is also likely to be weak in the near-term. The Institute of International Finance has projected that private capital flows from advanced economies to emerging economies will fall to US$165 billion in 2009 from an estimated US$477 billion in 2008. This is a significant contraction from the US$929 billion in 2007. According to UNCTAD, bleak global economic prospects would reduce the propensity of multinational corporations (MNCs) to invest abroad[4]. Unprecedented developments and uncertainties in the global economic environment have also led to heightened risk aversion. MNCs are likely to cut back on their overseas investment plans in preparation for possible difficult scenarios that may arise from the uncertain economic and financial conditions. Global FDI flows would also be hampered by limited access to finance by MNCs, on account of tighter credit conditions, and lower firm profits which would reduce MNCs' abilities to fund investments internally. In addition, declines in stock markets worldwide have removed an avenue of financing for many MNCs.

The impact has already been felt in Singapore. Based on balance of payments data, FDI inflows decreased by 32 per cent to S$32 billion in 2008, after reaching a historic peak of S$48 billion in 2007.

[3] Economist Intelligence Unit, Business Asia, 9 February 2009.
[4] UNCTAD, "Assessing the impact of the current financial and economic crisis on global FDI flows", 19 January 2009.

# EXPECTED DECLINE IN SINGAPORE'S FDI INFLOWS

**Exhibit 7 : Percentage Distribution of Singapore's Inward FDI Stock, 2007**




Source: Singapore Department of Statistics

In this section, we compare trends in Singapore's FDI inflows with the GDP growth of advanced economies,[5] and the spread between the Moody's Seasoned BAA Corporate Bond yield and the 10-Year Treasury yield[6]. Given that a large proportion of Singapore's FDI inflows originates from the advanced economies, the economic performance of these economies would be a gauge of the availability of investments (Exhibit 7). The BAA Corporate Bond/Treasury Spread is a measure of the cost of corporate borrowing relative to riskless Treasuries. Although this spread is specific to US bonds, it serves as an estimate of MNCs' access to corporate funding for investment opportunities.

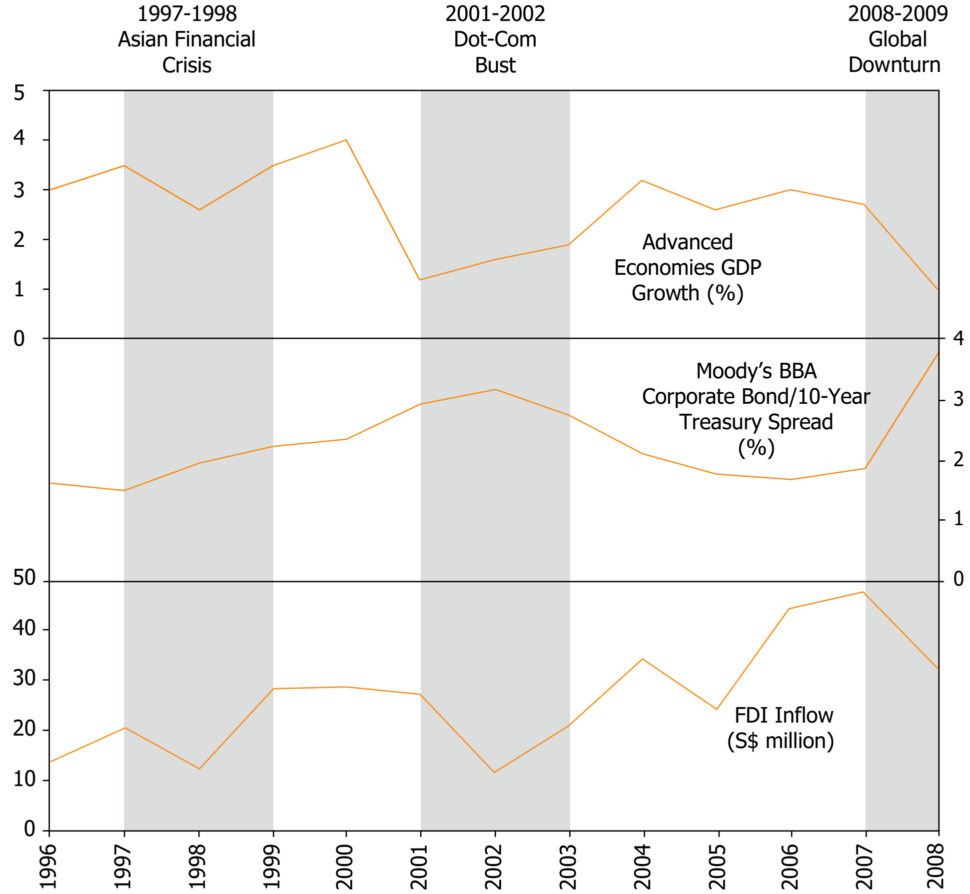
In Exhibit 8, we observe the following:

a. Historically, weaker performance in the advanced economies has led to lower FDI inflows to Singapore. In 1998, 2001 and 2008, advanced economies experienced economic slowdowns, and Singapore's FDI inflows fell significantly in the concurrent or subsequent years.
b. There appears to be a weak inverse relationship between the corporate bond/treasury spread and Singapore's FDI inflows. For instance, the high spread in 2002 corresponded with a low FDI inflow in the same year, while the 2003-2007 period of low spreads seemed to correspond with a general increase in FDI inflows to Singapore. Furthermore, the sharp increase in the spread in 2008 was matched by a fall in FDI inflows into Singapore in 2008.

Similar to our near-term trade outlook, and on account of the above factors, the outlook for Singapore's 2009 FDI inflow appears weak. UNCTAD expects further declines in global FDI inflows in 2009, and flows to developing countries will "slow down more markedly" than observed to date, as poor global economic growth and limited availability of funding will affect MNCs' plans to invest abroad.

[5] IMF World Economic Outlook, 28 January 2009
[6] Board of Governors of the US Federal Reserve System (Annual Average of Monthly Data)

**Exhibit 8 : Singapore FDI Inflows, Advanced Economies GDP Growth and Moody's BAA Corporate Bond/Treasury Spread**




Sources: Singapore Department of Statistics, IMF and Board of Governors of the Federal Reserve System

## GLOBAL PUBLIC POLICY ACTION

As the current downturn takes it toil, the near-term outlook for trade and investment appears bleak not only for Singapore, but also for most countries across the world. A larger concern is that this crisis may impact trade and investment flows well into the medium-term, as governments may face pressures to pursue protectionistic policies that appear to safeguard domestic businesses and households. While domestic stimulus should not be forsaken, policymakers may wish to consider adopting policies aimed at strengthening innovation, restoring credit flows and promoting competitiveness that will allow businesses to ride on the resurgence in trade and investment flows that will take place beyond the current crisis.

*Contributed by:*
Titus Lee, Economist
Economics and Strategy Division
Ministry of Trade and Industry

*With inputs from:*
International Enterprise Singapore

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