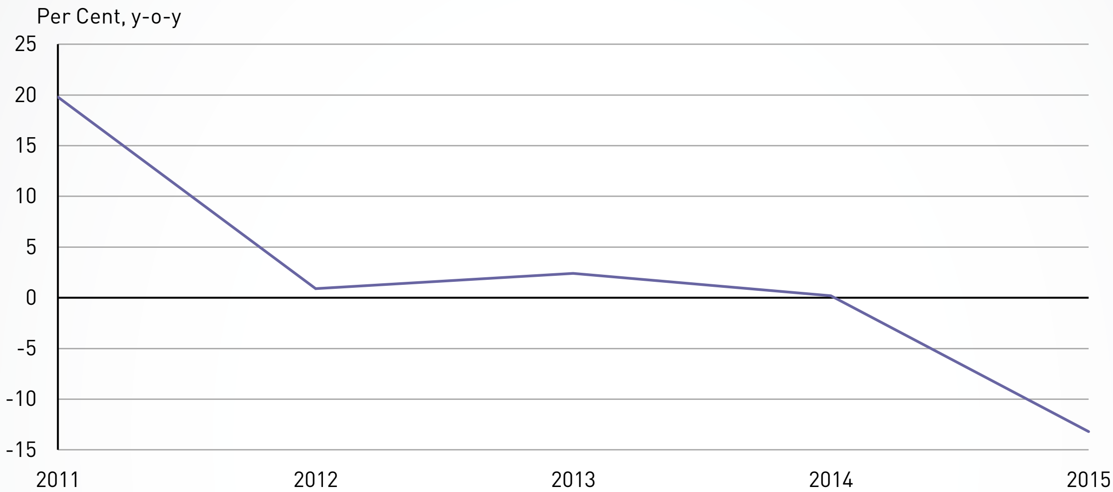
BOX ARTICLE 1.1

Box 1.1: Recent Trends in Singapore's Merchandise and Services Exports

Global merchandise exports growth has weakened in recent years

Growth in global merchandise exports has been sluggish in recent years. After rebounding strongly from the Global Financial Crisis (GFC) in 2009, global merchandise exports growth slowed between 2012 and 2014 before turning negative in 2015 (Exhibit 1). Compared to the pre-GFC period of 2004 to 2008, when global merchandise exports rose at a compound annual growth rate (CAGR) of 15 per cent, global merchandise exports declined at a CAGR of 2.6 per cent from 2011 to 2015.

Exhibit 1: Growth in Global Merchandise Exports

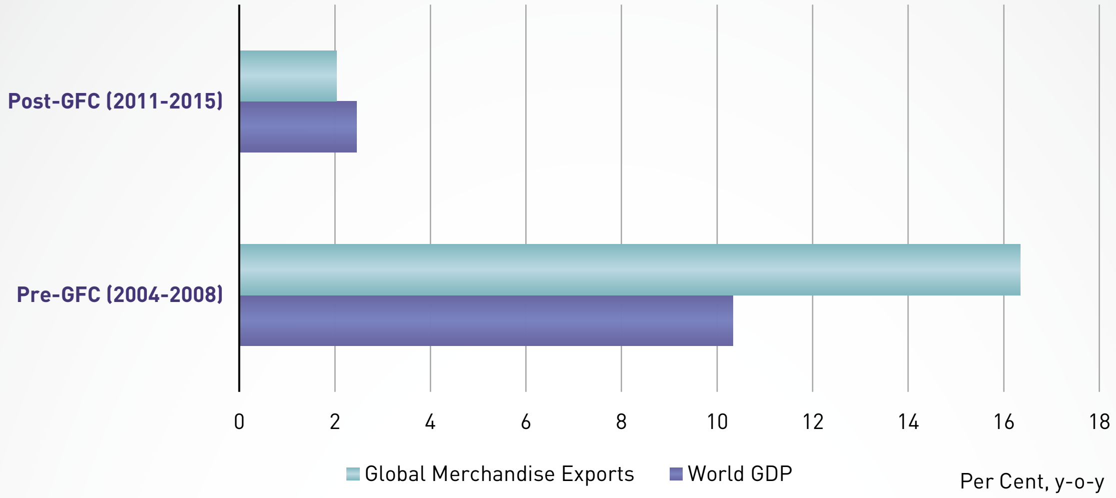


Source: World Trade Organization

There are a few factors for the slowdown in global merchandise exports. The first is sluggish global growth in the post-GFC period. The second is a weakening of the elasticity of global merchandise trade growth with respect to global GDP growth during this period (Exhibit 2). The reasons for the weaker trade elasticity include the shift towards consumption-driven growth and weaker investments[1], especially in the US and China. Increased in-sourcing of intermediate goods such as electronics parts and components, particularly in China, has also posed headwinds to merchandise exports. The third factor is the sharp decline in global oil prices in the second half of 2014 and 2015, which in turn weighed on the nominal value of oil trade in recent years.

[1] *Investments tend to be more goods import intensive than consumption.*

Exhibit 2: Average Annual Growth of World GDP and World Merchandise Exports



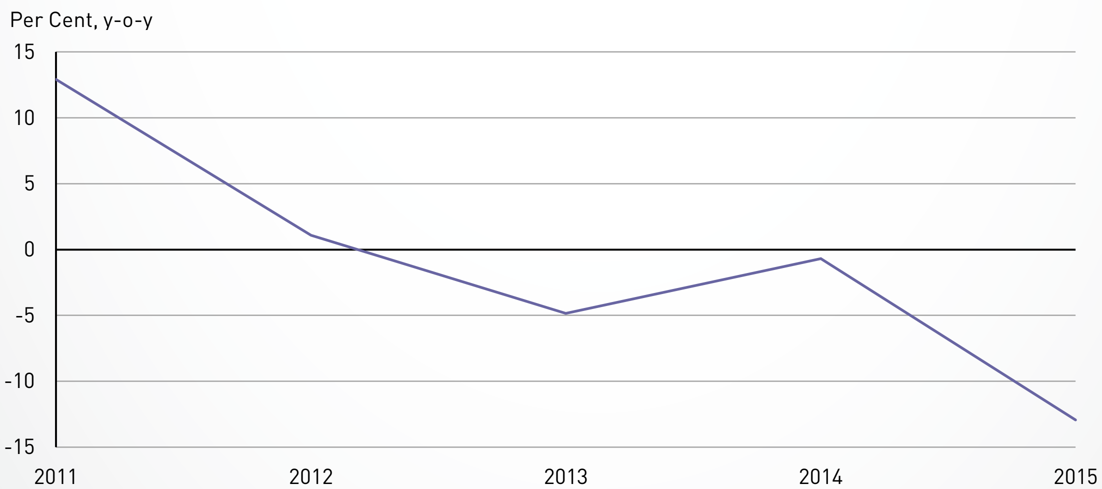
Source: International Monetary Fund, World Trade Organization

In line with this trend, Singapore's and other regional economies' merchandise exports have also performed sluggishly in recent years

Mirroring global trends, regional economies and Singapore also experienced sluggish merchandise exports growth in the post-GFC period. For example, in South Korea and Taiwan, merchandise exports rose by a CAGR of only 0.9 and 0.3 per cent respectively from 2011 to 2015; while in Malaysia and Indonesia, merchandise exports declined by 1.1 and 5.2 per cent respectively over the same period.

In Singapore, merchandise exports contracted by a CAGR of 1.9 per cent between 2011 and 2015, after seeing a strong rebound following the GFC. This was in contrast to the pre-GFC years, when merchandise exports grew by a robust CAGR of 9.2 per cent between 2004 and 2008. The current weakness in merchandise exports is mainly due to domestic exports, which declined by a CAGR of 4.5 per cent between 2011 and 2015 (Exhibit 3).

Exhibit 3: Changes in Singapore's Domestic Exports



Source: International Enterprise Singapore

In particular, Singapore's domestic exports were weighed down by a relatively large exposure to oil exports. As Singapore is a major oil trading and refinery hub, oil accounted for 31 per cent of its domestic exports in 2015, significantly higher than that for many regional economies.[2] Due to the sharp decline in global oil prices, the nominal value of Singapore's oil domestic exports fell by 8.6 per cent on a CAGR basis between 2011 and 2015, a much larger fall compared to the 2.3 per cent decline in non-oil domestic exports (NODX) over the same period.[3]

Another factor underpinning the sluggish performance of Singapore's domestic exports is the weak performance of electronics exports. There are three main reasons for this. First, global semiconductor demand has been weak in recent years, with global semiconductor sales projected to contract by 0.9% in 2016 after falling by 1.9% in 2015.[4] Second, as China moves up the electronics value chain, it is in-sourcing more of the electronics components required to meet its domestic production needs. As a key player in the regional electronics supply chain, Singapore's exports have been adversely affected by China's import substitution. Third, Singapore's electronics cluster has seen a shift towards fabless semiconductor companies. Such companies tend to offshore their production to production bases in the region, even as they strengthen their focus on higher-value activities (e.g., IC design, R&D, regional distribution and supply chain management) in Singapore. While this has contributed to the growth of the domestic electronics cluster, it has weighed on the shipment of electronics goods from Singapore.

Excluding oil and electronics exports, Singapore's domestic exports registered a marginal decline of 0.5 per cent on a CAGR basis from 2011 to 2015. This is far more moderate than the 4.5 per cent decline seen in overall domestic exports, and is comparable to that experienced by regional economies like Taiwan and South Korea (excluding oil and electronics exports).

Services exports are expected to play an increasingly important role in the Singapore economy

While merchandise exports remain an important part of the Singapore economy, services exports are expected to play an increasingly prominent role in Singapore's economic growth. Between 2011 and 2015, services exports grew by a robust CAGR of 6.4 per cent, even as merchandise exports saw a decline for the reasons given above. This strong performance was supported by healthy growth in the exports of financial services and other business services[5]. Specifically, the exports of financial services and other business services rose by a CAGR of 9.9 per cent and 11 per cent respectively between 2011 and 2015, outperforming the performance of the Newly Industrialised Economies (NIEs) and ASEAN-4[6] (Exhibit 4). The growth in our exports in these segments was supported by expanding regional demand, and likely reflects Singapore's competitive strengths in such trade with Asia. On the other hand, the segments of our services exports which support merchandise trade, such as the exports of transport services, have weakened in tandem with merchandise trade. For example, in 2015, the exports of transport services registered a 0.3 per cent decline, following the 15 per cent growth in the preceding year.

[2] Oil accounts for a much lower share of exports in regional economies such as China (1.2 per cent), South Korea (6.3 per cent) and Hong Kong (0.1 per cent).

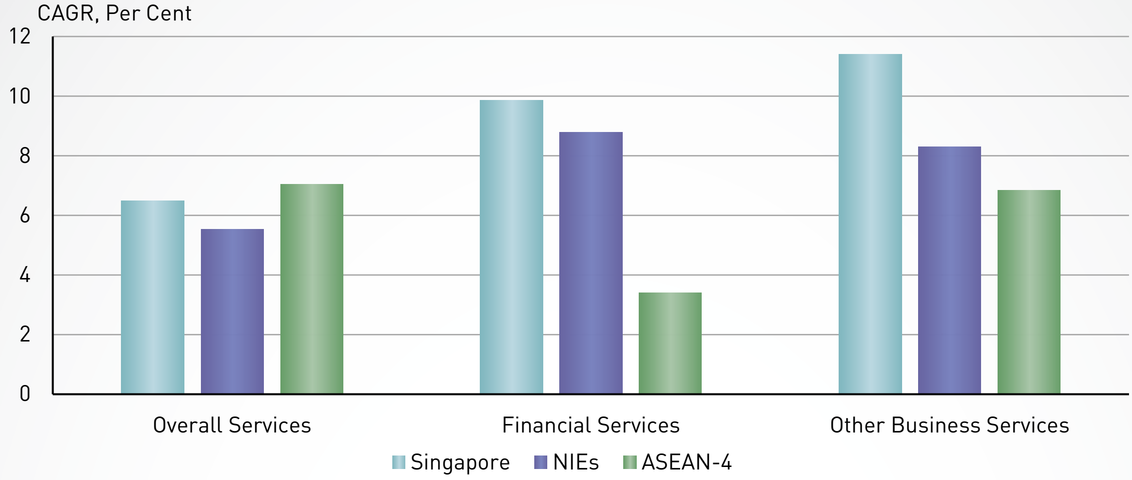
[3] The decline in oil domestic exports was entirely due to oil prices. Real oil domestic exports, which measure the volume of oil exported, registered a CAGR of 4.9 per cent during the period.

[4] Gartner estimates.

[5] Examples of other business services include accounting, legal, engineering, business management, and trade-related services.

[6] ASEAN-4 comprises Indonesia, Malaysia, Thailand and Philippines.

Exhibit 4: Growth in Services Exports for Singapore and Selected Regional Economies from 2011 to 2015, by Services Segments



Source: World Trade Organization

Looking ahead, structural shifts in the global economy present both headwinds and new opportunities to Singapore's exports

Given sluggish global demand and structural headwinds affecting merchandise trade, Singapore's merchandise exports performance has remained lacklustre in 2016. In the first three quarters of 2016, domestic exports fell by 10 per cent, largely weighed down by oil and electronics domestic exports. On the other hand, services exports grew by 1.0 per cent over this period.

While the on-going structural shifts in the global and regional economies are likely to continue to pose headwinds to Singapore's merchandise exports, they also present new opportunities for Singapore to grow our services exports over the longer term. For example, the shift towards consumption-driven growth in China could bring about new opportunities for sectors that are able to cater to their increasing consumption needs either directly or via global value chains. Sustained economic growth and the rising middle class in ASEAN and India will also lead to increased consumption and infrastructure spending in these economies, and present export opportunities for Singapore.

Singapore companies in key outward-oriented services sectors – such as the finance & insurance, information & communications and professional services sectors – have already tapped on the opportunities in these regions to grow their services exports in recent years. As Singapore continues to deepen its Free Trade Agreements (FTAs) with regional economies, in particular through the ASEAN Economic Community (AEC) and the Regional Comprehensive Economic Partnership (RCEP), the improved market access will position our companies well for growth opportunities in the region in the years ahead.

Contributed by:

Economics Division
Foreign Economic Policy Division
Ministry of Trade and Industry

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