

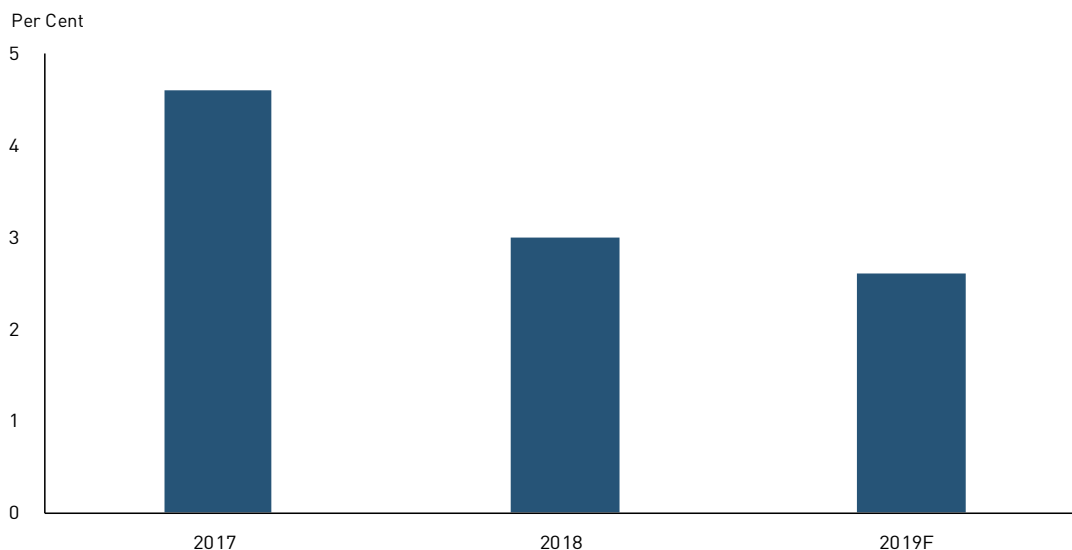
BOX ARTICLE 1.1

Recent Trends in Merchandise Exports of Singapore and Regional Economies

Growth in world merchandise trade has slowed

Growth in world merchandise trade has slowed in recent years. After expanding by 4.6 per cent in 2017, the pace of expansion in world merchandise trade slowed to 3.0 per cent in 2018, and the World Trade Organisation (WTO) expects growth to ease further to 2.6 per cent in 2019 (Exhibit 1).¹ The latest 2019 forecast by the WTO represents a significant downgrade from its previous forecast of 3.7 per cent, with the downgrade coming on the back of weaker-than-expected trade growth in the first half of 2019 as well as contractions in several forward-looking trade indicators such as air freight shipments and new export orders.²

Exhibit 1: Growth in World Merchandise Trade



Source: World Trade Organisation

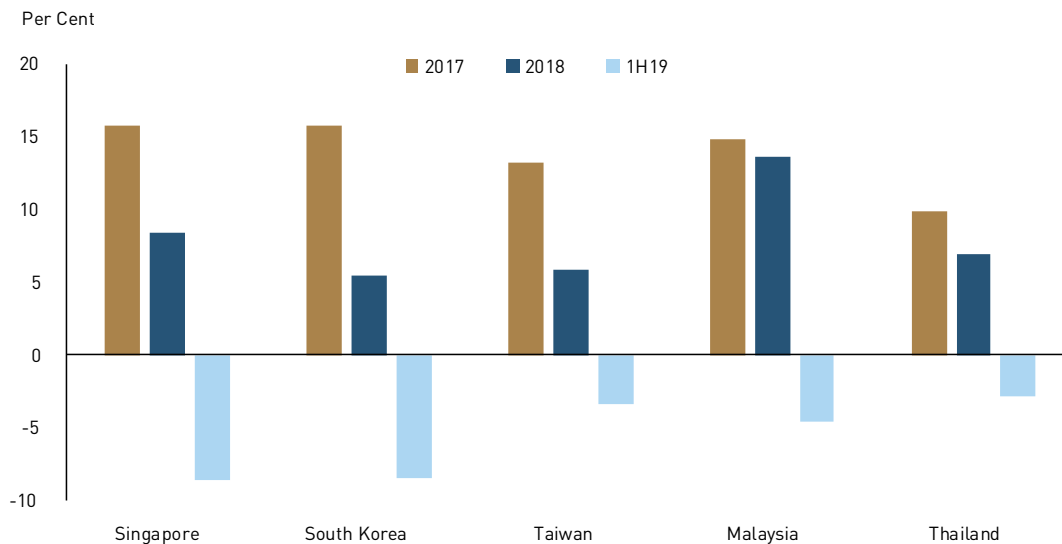
There are several factors driving the slowdown in world merchandise trade. First, global economic growth has weakened, with the International Monetary Fund (IMF) expecting full-year growth in 2019 to come in at 3.2 per cent compared to the 3.6 per cent recorded in 2018. Indeed, the pace of economic expansion in many advanced and regional economies such as the United States (US), China and ASEAN-5 has already eased, thus leading to weaker import demand from these economies. Second, electronics exports worldwide have been weighed down by the sluggish demand for major electronics end-products such as smartphones and personal computers. In particular, economies in Asia plugged into the global electronics value chain, such as Singapore, South Korea and Thailand, have seen a slowdown in their exports of electronics. Third, the bilateral tariffs imposed by the US and China on each other's merchandise products since the first half of 2018 have led to a fall in merchandise trade between both countries, with knock-on effects on the demand for intermediate goods up the value chain. Uncertainties arising from the US-China trade conflict have also led to weaker business confidence, which has further weighed on global investments and hence trade in capital goods.

¹ Based on latest estimates by the WTO.
² WTO Press Release 837, April 2019.

In line with the slowdown in global trade, Singapore's and other regional economies' merchandise exports have weakened in 2019

Amidst the slowdown in global trade, Singapore's exports have weakened in recent months. In the second quarter of 2019, Singapore's domestic exports (DX) declined by 11 per cent compared to the same period a year ago.³ Taking into account the 6.4 per cent drop in the previous quarter, Singapore's DX fell by 8.6 per cent year-on-year in the first half of the year. Like Singapore, the merchandise exports of regional economies such as South Korea (-8.5 per cent), Taiwan (-3.4 per cent), Malaysia (-4.7 per cent) and Thailand (-2.9 per cent) also saw a decline over the same period (Exhibit 2).⁴

Exhibit 2: Growth in Singapore's Domestic Exports and Merchandise Exports of Regional Economies



Source: Enterprise Singapore Statlink, Korea International Trade Association, Taiwan Bureau of Foreign Trade, Malaysia Department of Statistics, Thailand Ministry of Commerce

The contraction in merchandise exports in Singapore and most regional economies in the first half of 2019 can be attributed to both electronics exports and non-electronics exports. We elaborate on the trends in electronics and non-electronics exports below.

The slump in the global memory chip market has affected the electronics exports of Singapore and other regional economies

As Singapore and regional economies like South Korea and Thailand are plugged into the global electronics value chain, the sharper-than-expected downswing in the global electronics cycle has negatively affected their electronics exports. Specifically, Singapore's electronics non-oil domestic exports (NODX) contracted by 27 per cent year-on-year in the second quarter of 2019, extending the 17 per cent decline in the previous quarter. Overall, for the first half of the year, Singapore's electronics NODX fell by 22 per cent compared to a year ago. Over the same period, the electronics exports of South Korea and Thailand declined by 18 per cent and 10 per cent respectively (Exhibit 3).

³ For a more accurate comparison, we use Singapore's domestic exports instead of Singapore's total exports, as re-exports account for a much larger share of Singapore's total exports as compared to the other regional economies. For example, re-exports accounted for 49 per cent of Singapore's total exports in 2018, but only 8.3 per cent of Taiwan's total exports and 0.1 per cent of Thailand's total exports.

⁴ For this article, the exports growth of regional economies is computed based on nominal export values in USD, while Singapore's exports growth is computed based on nominal export values in SGD for consistency with trade figures reported by Enterprise Singapore. The trends and conclusions presented in the article are not affected if Singapore's exports growth is computed based on export values in USD.

The two largest contributors to the weak performance of Singapore's electronics NODX in the first half of 2019 were integrated circuits (ICs) and disk media products. Specifically, exports of ICs and disk media products declined by 20 per cent and 38 per cent year-on-year respectively in the first half of the year, accounting for 10 percentage-points (pp) and 4.9pp of the 22 per cent drop in electronics NODX respectively.

Focusing on ICs, the contraction in Singapore's domestic exports of ICs was due to poorer global demand for semiconductors⁵, especially memory chips. In particular, the global memory chip market is in a slump because of a severe supply glut as well as subdued demand conditions.⁶ In turn, the weakness in the memory chip market has significantly affected the major exporters of memory chips in Asia, especially Singapore and South Korea, which collectively account for around 58 per cent of the world's total exports of memory chips. Specifically, the memory chips exports of Singapore and South Korea declined by 27 per cent and 32 per cent respectively in the first half of 2019 (Exhibit 3).

Exhibit 3: Growth in Electronics Exports of Singapore and Regional Economies in First Half of 2019

	Exports of Memory Chips ⁷		Exports of Electronics
	As a share of electronics exports in 2018 (%)	1H19 (year-on-year change, %)	1H19 (year-on-year change, %)
Singapore (DX)	26	-27	-22
South Korea	41	-32	-18
Taiwan	7.6	-11	1.6*
Malaysia	4.1	7.7 [^]	-2.9
Thailand	4.4	-22	-10

* Although Taiwan's electronics exports remained expansionary in the first half of 2019, the pace of growth was significantly lower than the 6.8 per cent growth recorded in the first half of 2018.

[^] Malaysia's share of the world's total exports of memory chips is smaller at around 2 per cent. As such, its exports of memory chips may not have been as badly affected by the supply overhang in the global memory chip market. Nonetheless, the performance of its memory chips exports has also weakened sharply compared to the 45 per cent growth registered in the first half of 2018.

Source: Enterprise Singapore Statlink, Korea International Trade Association, Taiwan Bureau of Foreign Trade, Malaysia Department of Statistics, Thailand Ministry of Commerce

Apart from electronics NODX, Singapore's non-electronics NODX has also weakened in tandem with the slowdown in global economic growth

In the second quarter of 2019, Singapore's non-electronics NODX fell by 11 per cent year-on-year. The sharp drop came on the back of weaker external demand, as well as high base effects from a year ago when the value of non-electronics NODX had reached S\$36 billion, an all-time high in a single quarter.

Taking into account the 2.6 per cent decline posted in the first quarter of 2019, Singapore's non-electronics NODX fell by 6.8 per cent year-on-year in the first half of the year. The two largest contributors to the decline in non-electronics NODX during this period were specialised machinery and civil engineering equipment parts, which contributed 2.4pp and 1.8pp to the decline respectively.

Given the global nature of the slowdown in economic growth and hence import demand, the non-electronics exports of South Korea (-4.0 per cent), Taiwan (-7.2 per cent), Malaysia (-5.7 per cent) and Thailand (-1.6 per cent) similarly declined in the first half of 2019.

⁵ *The World Semiconductor Trade Statistics (WSTS) estimates that global semiconductor sales fell at a faster-than-anticipated pace of 17 per cent in the second quarter of 2019, extending the 13 per cent decline in the previous quarter.*

⁶ *For example, based on Gartner's projections in July 2019, global sales of memory chips for 2019 are expected to fall by 28 per cent, a much steeper pace of decline as compared to the 9.6 per cent contraction projected for all types of semiconductor chips.*

⁷ *Based on HS 854232 (Electronic Integrated Circuits: Memories)*

In addition, the US-China trade conflict has weighed on the demand for intermediate goods from the region

The tariffs imposed by the US and China on each other's merchandise products as part of the ongoing trade conflict have led to a fall in merchandise exports between the two countries. This has in turn adversely affected the demand for intermediate goods required for the production of these exports from the region.

In particular, China's exports to the US declined by 8.5 per cent year-on-year in the first half of 2019. This, along with the slowdown in the Chinese economy, led to a pullback in China's import demand, with its total imports from the world falling by 4.1 per cent over the same period. In line with this trend, Singapore's DX to China fell by 9.1 per cent year-on-year in the first six months of 2019, with the decline led by the exports of machinery & transport equipment and chemicals & chemical products. Regional economies like South Korea (-17 per cent), Taiwan (-9.1 per cent), Malaysia (-5.1 per cent) and Thailand (-9.7 per cent) also saw a drop in their merchandise exports to China over the same period.

Given the external headwinds, the outlook for Singapore's exports is expected to remain challenging for the rest of the year

In the near-term, Singapore's exports will continue to face strong headwinds arising from the sharper-than-expected downturn in the global electronics cycle as well as weaker global economic growth. Heightened uncertainties due to the US-China trade conflict also present downside risks to global growth and global trade. Against this backdrop, and taking into account the weak performance of Singapore's NODX in the first half of 2019, Enterprise Singapore has downgraded its NODX forecast for the full year to "-9.0 per cent to -8.0 per cent", from its earlier forecast of "-2.0 per cent to 0.0 per cent".⁸

Notwithstanding the current downdrafts in the external environment, Singapore will continue to refine its economic strategies so as to be able to seize the opportunities that will position Singapore for growth over the longer term. For example, as digitalisation is expected to transform the nature of trade and competition, the government will continue to work with businesses to drive the adoption of digital technologies in order to capture opportunities beyond Singapore, especially in Asia and ASEAN. The government will also press on with efforts to restructure the Singapore economy, and help businesses and workers develop the new skills needed to remain internationally competitive.

In addition, Singapore will continue to deepen its trade and investment linkages with the world via Free Trade Agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), as well as our Bilateral Investment Treaties. Such efforts will expand our international trade network, boost trade and investment flows, and allow Singapore companies to benefit from greater access to growth opportunities in the region and beyond.

Contributed by:

Economics Division
Foreign Economic Policy Division
Ministry of Trade and Industry

⁸ Enterprise Singapore has also downgraded its total trade forecast for 2019 to "-3.0 per cent to -2.0 per cent", from "0.0 per cent to 2.0 per cent", on the back of the downgrade to the NODX forecast as well as the weaker outlook for oil prices.