

SINGAPORE – A SURVEY OF SINGAPORE TRADE MID-YEAR 2003: REBOUNDED AND DIVERSIFYING; ELECTRONICS LAG, CHINA GROWS

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S u m m a r y

1. Singapore's economic and trade performance are usually closely correlated, not surprising for an economy where trade is over 300% of GDP. But the first half of 2003 (1H 2003) was an anomaly: while real GDP declined, Singapore's exports rose, a development explained by exogenous effect of SARS on the domestic economy. Singapore's exports – particularly non-oil domestic exports (NODX) – rose in 1H 2003, continuing a rebound that started in mid 2002. The gains were not universal, however. Domestic exports of electronics fell, underscoring continued weakness in that sector and the loss of further lower-end manufacturing to lower-wage countries. Singapore policymakers are prioritizing efforts to diversify the export base away from electronics; these efforts are showing some successes. Non-electronic domestic exports remain on a strong upward trend, with pharmaceutical output almost doubling from 2H 2002. As a result, the share of electronics in total domestic exports fell to 52% in 1H 2003, compared to 58% in 1H 2002. Looking ahead, most analysts see the growth trend in exports continuing in H2 2003; the Government projects total trade to grow by 4-6% for 2003 as a whole.

2. Geographically, China continues to increase in importance as a trading partner for Singapore. Domestic exports from Singapore to China rose 66% between the second half of 2001 and the first half of 2003, although some of the magnitude stems from a low base (2H 2001 marked the low point of Singapore's 2001 recession) and the rapid pace of growth seen in 2H 2002 has slowed. Nevertheless, exports to most other destinations showed much lower growth or registered marginal declines. Exports to the US and Europe have fluctuated greatly; the overall trend is flat. Together, Hong Kong and China overtook the EU as Singapore's second largest export market in 1H 2003, taking 15% of Singapore's domestic exports. In contrast, the shares represented by the U.S. and Japan continue to slide; the U.S. absorbed 19.1% of Singapore's domestic exports in the same period, compared to 22% in CY2001 and 2002. China and Hong Kong now represent Singapore's third largest trading partner, after Malaysia and the U.S.

Exports Continue Recovery Path

3. Singapore's trade performance in the first half of 2003 (1H 2003) continued a growth trend (albeit a choppy one) underway since the second quarter of 2002 (Singapore's trade hit bottom in the second half of 2001, due to a sharp fall in external demand, especially for electronics). In general, trade is a prime driver of GDP growth in

Singapore, given the economy's acute dependence on trade (total trade is three times GDP); 1H 2003 was thus uncommon in that the trade data and GDP results were not in sync. The principal explanation in 1H 2003 was the SARS epidemic, which severely buffeted Singapore's domestic economy. Had the trade picture been negative, the overall economy would have posted a sharper drop in GDP in 1H 2003 than it did. As it was, most of the trade growth in 1H 2003 came in the first quarter, before the SARS epidemic peaked in April/May.

4. Total trade in 1H 2003 expanded marginally over the second half of 2002 (2H 2002), rising 0.7% in nominal terms, but was up nearly 8% over 1H 2002, when the present recovery trend started. Measured in real terms, however, total trade edged down 0.3% in 1H 2003, relative to 2H 2002. Non-oil domestic exports (NODX), the most frequently cited gauge of Singapore trade, tracked the growth in overall trade, increasing 3% in nominal terms over 2H 2002 and 15% over 1H 2002. Non-oil reexports in 1H 2003 declined relative to 2H 2002, but were up marginally on a year-on-year basis, thanks to increased reexports of non-electronics. Non-oil imports displayed the same pattern: falling 2.4% in nominal terms in 1H 2003 over 2H 2002, but up slightly compared to 1H 2002. Total imports is a less reliable measure, given that oil price can distort import statistics by value. (Note: See statistical annex after paragraph 12 for detailed data in both nominal and real terms.)

Singapore's Non-Oil Domestic Exports by Major Product

(Nominal terms, S\$ millions)

	<u>1H 02</u>	<u>2H 02</u>	<u>1H 03</u>
Non-oil Domestic Exports	46,640	51,945	53,674
- Electronic Products	27,162	29,939	27,889
- Non-Electronic Products	19,479	22,010	25,785
- Pharmaceuticals	n.a.	3,565	6,434
- Petrochemicals	n.a.	2,708	2,827

Note: Disaggregated data on non-electronic domestic exports in 1H 02 not available in comparable form.

Source: IE Singapore (formerly Trade Development Board)

Composition of Non-Oil Domestic Exports (NODX)

(Nominal terms, S\$ millions)

Percentage of Total NODX

	<u>1H 02</u>	<u>CY</u> <u>2002</u>	<u>1H 03</u>
Electronics	58.2	57.9	52.0
- Disk Drives	11.1	16.0	15.0
- Integrated Circuits	11.7	12.2	12.8
- Parts of PCs	11.8	11.9	9.7

- Consumer Electronics	2.8	2.9	2.3
Non-Electronic Products	41.8	42.1	48.0
- All Chemicals	14.5	15.5	22.4
- Pharmaceuticals	n.a.	6.1	12.0
- Petrochemicals	n.a.	4.7	5.3

Note: Disaggregated data on non-electronic domestic exports in 1H 02 not available in comparable form.

Source: IE Singapore (formerly Trade Development Board)

5. The NODX trade data brought both good and bad news. Overall, while up 16% over their low point in 2H 2001, NODX have still not fully recovered to their pre 2001 levels. Furthermore, domestic exports of electronics, which account for over half (52%) of total NODX, have put in a mixed performance since 1H 2002. After decent growth in 2H 2002, electronics domestic exports fell back in nominal terms in 1H 2003, continuing to act as a drag on overall NODX. Within electronics, exports of integrated circuits (includes semiconductors) have increased over the past eighteen months, while exports of consumer electronics and parts of PCs have slid. This is consistent with the shift of certain lower-value assembly operations out of Singapore. The outlook for electronics domestic exports is uncertain, although recent leading indicators suggest some grounds for cautious optimism.

6. The good news is that the government's efforts to diversify the export base and diminish an excessive reliance on electronics are bearing fruit. Non-electronic domestic exports have grown strongly over the past two years, up 32% in nominal terms in 1H 2003 compared to a year earlier (1H 2002), higher than the 19.8% year-on-year (y/y) growth registered in 2H 2002 and the ten percent increase in CY2002 over CY2001. Officials have focused

considerable energy into attracting new investments in the chemical and life science sectors as the focal points of the diversification effort. The results are clear. Domestic exports of chemicals, including pharmaceuticals and petrochemicals, increased by an impressive 77% y/y in nominal terms between 1H 2002 and 1H 2003; between 2001 and 2002, domestic exports of chemicals rose 27%. Disaggregated, the data for domestic exports of pharmaceuticals alone is even more impressive, up 167% in nominal terms in 1H 2003 over 1H 2002. Most of Singapore's pharmaceutical exports are intermediate products.

Outlook

7. Most analysts expect exports to show moderate growth in 2H 2003. The Government forecast, which is generally consistent with private sector analyses, is for total trade to grow between 4-6% for the year as a whole, which is the upper range of the 2-6% forecast made early in 2003, and compares favorably to the 1.5% y/y growth registered in 2002. But it remains well below the robust export growth registered in the 1990s. The forecast is premised on a favorable economic outlook in the U.S. and regional economies, a continued modest rebound in electronics demand, and continued growth in chemical exports as new production facilities come on line.

Geographic Trends: China Now Number Two Export Market

8. On a geographic basis, the most impressive trend in Singapore's trade performance has been the steady move by China up the ranking chart. In terms of total trade, China and Hong Kong, taken together as one economic space, overtook the EU as Singapore's third largest trading partner in 2002, and gained further ground in 1H 2003, with a 13.5% share of Singapore's world trade. Malaysia continues to be Singapore's top trading partner, with a 16% share in 1H 2003, followed by the U.S., at 14%; the EU share is 12.9% and Japan is in fifth place at 9%. In 2002, China/Hong Kong's share was 12.4%, and in 2001 it was 11%. In contrast, the US and Japan have seen their shares of Singapore's total trade slide; in the case of the U.S., from 15.9% in 2001 to 14.4% in 2002 and 14% in 1H 2003, and for Japan, from 10.7% in 2001 to 9.7% in 2002 and 9.0% in 1H 2003. The share of most other markets has remained fairly constant. Of note, India's share has remained flat, at 1.6% since 2000.

Top Markets Share of Total Trade

<u>Partner</u>	<u>2001</u>	<u>2002</u>	<u>1H 03</u>	<u>2001</u>	<u>2002</u>	<u>1H 03</u>
	(S\$ Million)			(Percent Share)		
World	425.7	432.3	225.1	100.0	100.0	100.0
Malaysia	73.7	76.9	36.9	17.3	17.8	16.4
U.S.	67.7	62.4	31.7	15.9	14.4	14.1
China/HK	46.8	53.7	30.5	11.0	12.4	13.5
EU	53.6	52.6	28.9	12.6	12.2	12.9
Japan	45.5	42.1	20.3	10.7	9.7	9.0
((China	22.4	28.1	16.0	5.3	6.5	7.1
((Hong Kong	24.4	25.6	14.5	5.7	5.9	6.4
Taiwan	20.0	20.6	10.5	4.7	4.8	4.7
Thailand	18.8	19.9	9.6	4.4	4.6	4.2
Korea	15.2	17.0	9.0	3.6	3.9	4.0
Australia	9.9	9.9	5.8	2.3	2.3	2.6
Philippines	10.1	9.9	4.8	2.4	2.3	2.1
Saudi Arabia	8.1	7.5	4.3	1.9	1.7	1.9
India	6.9	6.8	3.5	1.6	1.6	1.6

(Note: Publicly-released Singapore trade statistics do not capture trade with Indonesia.)

Source: IE Singapore (formerly Trade Development Board)

In billions of USD, Singapore's trade with:

	<u>1990</u>	<u>1995</u>	<u>2001</u>	<u>2002</u>	
Malaysia		15.7	42.0	39.9	44.3
U.S.		21.7	40.3	36.6	35.9
China/HK		8.5	21.1	25.3	30.9
EU		16.9	32.5	29.0	30.3
Japan		17.5	35.6	24.6	24.2
China		3.0	6.8	12.1	16.2
Hong Kong		5.5	14.3	13.2	14.7

Source: IE Singapore (formerly Trade Development Board)

9. As with total trade, China/Hong Kong have gained importance as a market for Singapore's domestic exports. NODX to China grew 23% y/y in 1H 2003, although this was slower than the sharp 45.7% y/y increase seen in 2H 2002. Still, China/Hong Kong displaced the EU as Singapore's second largest export market in 1H 2003, accounting for 15% of Singapore's domestic exports in real terms, up from 13% a year earlier (1H 2002). The U.S. share in 1H 2003 was 19%, and the share of the EU, 13%. The U.S. share of Singapore's NODX also continues to decline: for 1H 2003, the U.S. market absorbed 20.1%, compared to 21.7% for CY2002, 22% for CY2001 and 25.2% in CY2000. It is unclear whether the change results from displaced exports or imports or changes in production patterns, or is more a factor of economic conditions in the U.S. and Japan. However, the past several years have demonstrated that Singapore's NODX to the U.S. are quite sensitive to the performance of the U.S. economy (a 1% increase in US real GDP brings a 3.4% change in Singapore's NODX to the U.S.), but somewhat less sensitive to exchange rate changes.

10. In real terms, domestic exports in 1H 2003 rose to most markets, compared with 2H 2002; the U.S. and the EU were the notable exceptions. While domestic exports to the US decreased in 1H 2003 compared to 2H 2002, they rose on a year-on-year basis, thanks to strong non-electronic exports (particularly pharmaceuticals) and strengthened growth in the U.S. By contrast, EU demand for Singapore's NODX appears considerably less price and income elastic than U.S. demand.

11. Another interesting observation is that, while domestic exports to Malaysia rose in 1H 2003, NODX to Malaysia continue on a downward trend, down 9.3% y/y in 1H 2003, following declines of 6.3% y/y in 2002 and 16.9% y/y in 2001. Two factors may contribute to the results, which contrast with the overall growth in NODX over much of the same time period. First, electronics are a key component of Singapore's domestic exports to Malaysia, given integrated assembly operations between the two countries; persistent weakness in that sector therefore will influence demand. Second, the decline may result from a shift of some assembly operations out of Singapore and/or Malaysia to other economies, such as China. For example, Singapore exports of electronics to China rose by 36% in the first half of 2003.

Surplus in Trade with US

12. Based on Singapore trade data, Singapore's trade balance with the U.S. continued to be in surplus in 1H 2003, a consistent historical pattern that was broken in 2001. Singapore's trade surplus with the U.S. in CY 2002 totaled S\$1.3 billion (US\$720 million); this compares to a S\$688 million (US\$393 million) surplus in 1H 2002 and a S\$3.4 billion (US\$1.95 billion) surplus for 2002 as a whole. Total Singapore-US trade for 1H 2003 was S\$31.7 billion (US\$18.1 billion), slightly more than the S\$31 billion registered in 1H 2002.

Total Trade (real terms, 1995 S\$ millions)

	<u>H2 01</u>	<u>H1 02</u>	<u>H2 02</u>	<u>H1 03</u>	<u>% change H1 03/H1 02</u>	<u>% change H1 03/H2 02</u>
Total Trade	212,421	215,890	232,292	231,612	7.3	-0.3
Exports	112,819	115,133	126,316	126,923	10.2	0.5
Domestic Exports	61,905	62,321	69,985	71,423	14.6	2.1
Oil	6,880	6,354	6,790	6,992	10.0	3.0
Non-oil (NODX)	55,025	55,967	63,195	64,431	15.1	2.0
Re-exports	50,914	52,812	56,331	55,500	5.1	-1.5
Oil	391	698	692	670	-4.0	-3.2
Non-oil	50,523	52,114	55,639	54,830	5.2	-1.5
Imports	99,602	100,757	105,976	104,689	3.9	-1.2
Oil	7,914	7,853	7,819	7,995	1.8	2.3
Non-oil	91,688	92,904	98,157	96,694	4.1	-1.5

Total Trade (nominal terms, S\$ millions)

	<u>H2 01</u>	<u>H1 02</u>	<u>H2 02</u>	<u>H1 03</u>	<u>% change H1 03/H1 02</u>	<u>% change H1 03/H2 02</u>
Total Trade	206,566	208,747	223,501	225,134	7.9	0.7
Exports	105,676	107,181	116,745	118,909	10.9	1.9
Domestic Exports	56,485	56,192	63,252	66,706	18.7	5.5
Oil	10,419	9,552	11,307	13,031	36.4	15.2
Non-oil (NODX)	46,066	46,640	51,945	53,674	15.1	3.3
Re-exports	49,191	50,989	53,493	52,203	2.4	-2.4
Oil	596	1,120	1,271	1,368	22.1	7.6
Non-oil	48,599	49,869	52,222	50,835	1.9	-2.7
Imports	100,890	101,566	106,756	106,225	4.6	-0.5
Oil	12,715	12,730	14,471	16,167	27.0	11.7
Non-oil	88,175	88,836	92,285	90,058	1.4	-2.4

	<u>1H 02</u>	<u>2H 02</u>	<u>1Q 03</u>	<u>2Q 03</u>	<u>1H 03</u>
Total Trade	208,747	223,501	111,901	113,233	225,134
Exports	107,181	116,745	59,326	59,583	118,909
Domestic Exports	56,192	63,252	33,445	33,261	66,706
Oil	9,552	11,307	6,683	6,348	13,031
Non-oil (NODX)	46,640	51,945	26,762	26,912	53,674

Re-exports	50,989	53,493	25,881	26,322	52,203
Oil	1,120	1,271	774	594	1,368
Non-oil	49,869	52,222	25,107	25,728	50,835
Imports	101,566	106,756	52,575	53,650	106,225
Oil	12,730	14,471	8,506	7,661	16,167
Non-oil	88,836	92,285	44,069	45,989	90,058

Domestic Exports (Real terms, 1995 prices, in S\$ millions)

	<u>H2 01</u>	<u>H1 02</u>	<u>H2 02</u>	<u>H1 03</u>	<u>% change H1 03/H1 02</u>	<u>% change H1 03/H2 02</u>
Total	61,905	62,321	69,985	71,423	14.6	2.1
USA	12,273	12,684	14,477	13,654	7.6	-5.7
EU	10,370	9,196	10,734	9,433	2.6	-12.1
Malaysia	8,232	7,925	8,042	9,719	22.6	20.9
Japan	5,106	5,486	5,423	6,194	12.9	14.2
Hong Kong	5,008	4,605	6,122	6,147	33.5	0.4
China	2,778	3,605	4,104	4,615	28.0	12.5
Taiwan	3,210	3,241	3,536	3,506	8.2	-0.8
Thailand	2,307	2,519	2,772	2,555	1.4	-7.8
Korea	2,321	2,223	2,113	2,503	12.6	18.5
Australia	1,621	1,705	2,024	1,968	15.4	-2.8

13. Further Singapore trade data is available at: <http://www.iesingapore.com/>