

# **SINGAPORE TRADE 2003:**

## **Record Year; China and EU Rising**

*June 1, 2004*

### **S U M M A R Y**

Singapore's economic and trade performance are usually closely correlated, not surprising for an economy where trade is over 300% of GDP. But while external trade was up a robust 9.6% in 2003, real GDP edged up only 1.1%. Indeed, exports were the main driver of growth, keeping the economy afloat after the bottom fell out of domestic demand in the first half of the year (1H 2003), namely due to the SARS epidemic. Total trade in 2003 expanded strongly, up 9.6% in nominal terms over 2002, to a record S\$474 billion (US\$277 billion). Singapore's exports - particularly non-oil domestic exports (NODX) - were up sharply in the second half of 2003 (2H 2003) continuing a rebound that started in mid 2002, and also set a new record. Efforts by Singapore policymakers to diversify the export base away from electronics continued to show success, with domestic exports of pharmaceuticals, chemicals and petrochemicals increasing by an impressive 55% y/y in 2003. Domestic exports of electronics rose 5.9%, reversing the drop seen in 2002. The share of non-electronics in total NODX has risen from 39% in 2001 to 47% in 2003. Looking ahead, the Government projects total trade to grow by 8-10% for 2004 as a whole. However, data for the first quarter suggests this may be optimistic - exports were flat, suggesting growth may have peaked in 2H 2003 or simply indicating a break in an otherwise upward trend.

Geographically, China continued to increase in importance as a trading partner for Singapore, but so did the EU. Trade with China is growing much faster than Singapore's trade with its more established markets, such as Malaysia and the U.S. In 2003, China and Hong Kong, taken together, surpassed the U.S. to become Singapore's second largest trading partner, after Malaysia. NODX to China rose 33.6% in 2003, with the biggest increase coming in 2H 2003 (up 43%). In contrast, NODX to the U.S. and Malaysia contracted for the second consecutive year. China and Hong Kong collectively now account for 14.2% (S\$67.4 billion) of Singapore's total trade, up from 12.4% (S\$53.6 billion) in 2002 and 10% in 2000. Meanwhile, the U.S. share shrunk, and now stands at 13.6% (S\$64.5 billion). All told, trade with China contributed two percentage points of Singapore's total 9.6% trade growth in 2003.

Less heralded has been a boom in exports of pharmaceuticals, semiconductors and telecom equipment to the EU, with NODX up 32% in 2003, just a hair short of the 33.6% increase to China, and putting the EU just a whisker behind the U.S. as Singapore's top export market. NODX to India also grew robustly, up 33.3%, almost as much, in percentage terms, as NODX to China. In fact, exports were up to all destinations except the U.S. and Malaysia; NODX to the U.S. were down 0.6% in 2003, after a 1.0% decline in 2002.

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## Record Year for Trade, Exports Up Strongly

Singapore's trade performance in 2003 continued a growth trend underway since the third 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). But while the trade data and GDP results were not in sync in 1H 2003 – the principal explanation was the SARS epidemic, which severely buffeted Singapore's domestic economy – impressive export growth in 2H 2003 propelled GDP higher than originally forecast.

Total trade in 2003 expanded strongly, up 9.6% in nominal terms over 2002, to a record S\$474 billion (US\$277 billion). For 2H 2003, trade grew 10.5% over 1H 2003, and was 11.3% higher than in 2H 2002. Measured in real terms, the increase in total trade was slightly higher, up 12.8% in 2H 2003, relative to 1H 2003. Non-oil domestic exports (NODX), the most frequently cited gauge of Singapore trade, tracked the growth in overall trade, increasing 15.1% in nominal terms in 2003 over 2002, and 15.2% in 2H 2003 over 1H 2003. At S\$113.5 billion (US\$66.4 billion), NODX set a new record, just edging past the previous record year of 2000, when NODX reached S\$113 billion.

*(Note: See statistical annex for detailed data in both nominal and real terms.)*

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|             | <u>Total Trade</u> | <u>S\$ Billion<br/>Domestic Exports</u> | <u>NODX</u>  |
|-------------|--------------------|---|--------------|
| 1990        | 205.0              | 62.8                                    | 45.6         |
| 1991        | 216.1              | 66.0                                    | 48.8         |
| 1992        | 220.9              | 66.3                                    | 52.9         |
| 1993        | 257.1              | 75.4                                    | 60.8         |
| 1994        | 303.7              | 88.5                                    | 74.5         |
| 1995        | 343.8              | 98.5                                    | 84.8         |
| 1996        | 361.5              | 103.6                                   | 87.0         |
| 1997        | 382.2              | 107.6                                   | 91.6         |
| 1998        | 353.6              | 105.9                                   | 92.4         |
| 1999        | 382.4              | 116.3                                   | 101.2        |
| 2000        | 470.0              | 136.0                                   | 113.1        |
| 2001        | 425.8              | 118.4                                   | 96.7         |
| 2002        | 432.2              | 119.5                                   | 98.6         |
| <b>2003</b> | <b>474.0</b>       | <b>138.9</b>                            | <b>113.5</b> |

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Non-oil reexports in 2003 showed more modest growth: up 7.3% on a nominal, year-on-year (y/y) basis, compared to 3.3% y/y growth in 2002. Reexports of both electronics and non-electronics products showed similar increases. As for imports, non-oil imports also rose, but more gradually than NODX, up 6.4% on a nominal y/y basis. Almost all the increase in non-oil imports occurred in 2H 2003.

*(Note: Non-Oil imports are a more reliable measure than total imports, given that oil price can distort import statistics by value.)*

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**Singapore's Non-Oil Domestic Exports by Major Product**  
(nominal terms, S\$ billions)

|                          | <u>1H 02</u> | <u>2H 02</u> | <u>1H 03</u> | <u>2H 03</u> |
|--------------------------|--------------|--------------|--------------|--------------|
| Non-oil Domestic Exports | 46.64        | 51.95        | 53.67        | 59.83        |
| Electronic Products      | 27.16        | 29.94        | 27.89        | 32.14        |
| Non-Electronic Products  | 19.48        | 22.10        | 25.79        | 27.70        |
| Pharmaceuticals          | n.a.         | 3.56         | 6.43         | 5.53         |
| Petrochemicals           | n.a.         | 2.71         | 2.83         | 3.14         |

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

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|---|
| <b>Diversification Efforts Show Success</b> |
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After several years of volatile economic performance, the strong NODX trade data was welcome news to Singaporeans. Impressive growth in non-electronics exports – up 28.9% y/y in nominal terms in 2003 – was the principal reason for the very positive NODX showing in 2003. This follows the 9.9% y/y increase in non-electronics exports in 2002, and is good news for the Government, and suggests the concerted efforts to diversify the export base and diminish an excessive reliance on electronics are bearing fruit. Non-electronics domestic exports accounted for 47% of NODX in 2003, up from 39% in 2002, while the share of NODX represented by electronics showed a corresponding decline.

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. Much of the increase seen in 2003 stemmed from booming pharmaceutical exports – up 100% in nominal terms in 2003 over 2002 – although chemical and petrochemicals increased as well. Collectively, pharmaceuticals, chemicals and petrochemicals increased by an impressive 55% y/y in nominal terms in 2003, although growth momentum slowed in 2H 2003. In comparison, domestic exports of chemicals rose 27% in 2002 compared to 2001.

Domestic exports of electronics exports rose 5.1% in 2003, compared to a 3.2% decline in 2002. As with overall NODX, most of the growth came in 2H 2003, and reflects the recovery in global electronics demand that began in 2002. Within electronics, exports of integrated circuits (includes semiconductors) and disk drives led the recovery, while exports of PCs and parts and printers continued to slide. This is consistent with the shift of certain lower-value assembly operations out of Singapore.

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### Composition of Non-Oil Domestic Exports (NODX)

| <u>CY2001</u>        | <u>Percentage of Total NODX</u> |               |              |              |      |
|----------------------|---------------------------------|---------------|--------------|--------------|------|
|                      | <u>CY2002</u>                   | <u>CY2003</u> | <u>1H 03</u> | <u>2H 03</u> |      |
| Electronics          | 60.9                            | 57.9          | 52.9         | 52.0         | 53.7 |
| Disk Drives          | 11.6                            | 16.0          | 14.7         | 15.0         | 14.4 |
| Integrated Circuits  | 13.9                            | 12.2          | 14.1         | 12.8         | 15.3 |
| Parts of PCs         | 12.1                            | 11.9          | 9.6          | 9.7          | 9.5  |
| Consumer Electronics | 5.0                             | 2.9           | 3.0          | 2.3          | 2.9  |
| Non-Electronics      | 39.0                            | 42.1          | 47.1         | 48.0         | 46.3 |
| All Chemicals        | n.a.                            | 15.5          | 20.9         | 22.4         | 19.5 |
| Pharmaceuticals      | n.a.                            | 6.1           | 10.5         | 12.0         | 9.2  |
| Petrochemicals       | n.a.                            | 4.7           | 5.3          | 5.3          | 5.3  |

*Note: Disaggregated data on non-electronic domestic exports in CY 2001 not available in comparable form.*

*Source: IE Singapore*

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### Outlook

In January, the Government forecast total trade to grow between 8-10% for the year as a whole, compared to the 9.6% growth registered in CY2003. The forecast remains premised on continued strong global electronics demand; a further increase in chemical exports, albeit at a more moderate pace; a favorable economic outlook in the U.S.; continued expansion in China, Japan and the EU; and continued growth in exports to regional economies.

Initial data suggests this forecast might be optimistic. Exports remained flat in the first quarter of 2004, suggesting either a break in the growth momentum, or that growth peaked in 2H 2003. The latter interpretation is worrying for Singapore's 2004 growth prospects, suggesting some forecasts may be over-optimistic. Most analysts expected growth to slow only in the second half of the year. Signs that PRC policymakers are taking steps to cool Chinese growth may also negatively impact export growth.

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### Geographic Trends

#### *China/HK Now Second-Largest Trading Partner*

On a geographic basis, the most impressive trend in Singapore's trade performance continues to be the steady move by China up the ranking chart. In terms of total trade, China and Hong Kong, taken together (a significant amount of Singapore's trade with China still goes through Hong Kong), overtook the U.S. in 2003 to become Singapore's second largest trading partner, after Malaysia; this follows 2002, when they surpassed the EU as Singapore's third largest trading partner, and 2001, when they passed Japan as the fourth largest trading partner. China and Hong

Kong collectively accounted for 14.2% (S\$67.4 billion or US\$39.6 billion) of Singapore's total trade in 2003, up from 12.4% (S\$53.6 billion) in 2002 and 10% in 2000.

### *U.S. Share Shrinks*

Meanwhile, the U.S. share of Singapore's total trade continued to shrink, and now stands at 13.6% (S\$64.5 billion), versus 14.4% (S\$62.4 billion) in 2002. Malaysia continues to be Singapore's top trading partner, with a 16.3% share in 2003; the EU share of 12.9% places it in third place, and Japan is in fifth place at 9.2%. Like the U.S., Japan has seen its shares of Singapore's total trade slide, from 10.7% in 2001 to 9.7% in 2002 and 9.2% in 2003. Of note, India's share has remained largely flat, at around 1.6% since 2000

### Top Markets Share of Total Trade

| <u>Trading Partner</u> | <u>2002</u> | <u>2003</u>   | <u>2H 03</u> | <u>2002</u>     | <u>2003</u> | <u>2H 03</u> |
|------------------------|-------------|---------------|--------------|-----------------|-------------|--------------|
|                        |             | (S\$ Million) |              | (Percent Share) |             |              |
| World                  | 432.3       | 473.9         | 248.8        | 100.0           | 100.0       | 100.0        |
| Malaysia               | 76.9        | 77.2          | 40.3         | 17.8            | 16.3        | 16.2         |
| U.S.                   | 62.4        | 64.5          | 32.8         | 14.4            | 13.6        | 13.2         |
| China/HK               | 53.7        | 67.4          | 36.9         | 12.4            | 14.2        | 14.8         |
| EU                     | 52.6        | 61.2          | 32.2         | 12.2            | 12.9        | 12.9         |
| Japan                  | 42.1        | 43.7          | 23.4         | 9.7             | 9.2         | 9.4          |
| ((China                | 28.1        | 36.9          | 20.9         | 6.5             | 7.8         | 8.4          |
| ((Hong Kong            | 25.6        | 30.5          | 16.0         | 5.9             | 6.4         | 6.4          |
| Taiwan                 | 20.6        | 23.3          | 12.8         | 4.8             | 4.9         | 5.1          |
| Thailand               | 19.9        | 20.3          | 10.7         | 4.6             | 4.3         | 4.3          |
| Korea                  | 17.0        | 19.2          | 10.2         | 3.9             | 4.0         | 4.1          |
| Australia              | 9.9         | 12.0          | 6.2          | 2.3             | 2.5         | 2.5          |
| Philippines            | 9.9         | 10.6          | 5.8          | 2.3             | 2.2         | 2.3          |
| Saudi Arabia           | 7.5         | 7.4           | 3.1          | 1.7             | 1.6         | 1.2          |
| India                  | 6.8         | 7.9           | 4.4          | 1.6             | 1.7         | 1.8          |

*(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> | <u>2003</u> |
|---------------|-------------|-------------|-------------|-------------|-------------|
| Malaysia      | 15.7        | 42.0        | 39.9        | 44.3        | 45.4        |
| U.S.          | 21.7        | 40.3        | 36.6        | 35.9        | 37.9        |
| China/HK      | 8.5         | 21.1        | 25.3        | 30.9        | 39.6        |
| EU            | 16.9        | 32.5        | 29.0        | 30.3        | 36.0        |
| Japan         | 17.5        | 35.6        | 24.6        | 24.2        | 25.7        |
| ((China       | 3.0         | 6.8         | 12.1        | 16.2        | 21.7        |
| ((Hong Kong   | 5.5         | 14.3        | 13.2        | 14.7        | 17.9        |
| Indonesia (*) | n.a.        | n.a.        | n.a.        | n.a.        | 15.3        |

*\* data for Indonesia is for domestic exports plus imports. Data for other markets includes reexports*

*Source: IE Singapore (formerly Trade Development Board)*

As with total trade, China/Hong Kong have gained importance as a market for Singapore's domestic exports. NODX to China grew 33.6% y/y in 2003, although this was slower than the sharp 39.5% y/y increase seen in 2002.

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*Exports: Booming to EU, Stagnant with U.S., Malaysia*

But less heralded was the strong growth in NODX to the EU, up 32% y/y in nominal terms in 2003, after an 8% decline in 2002. Pharmaceuticals, semiconductors, and telecom equipment led the increase. This growth - combined with flat exports to the U.S. - enabled the EU to almost edge out the U.S. as Singapore's top NODX market. The EU share of Singapore NODX was 18.6%, up from 16.2% in 2002; that of China/Hong Kong was 15.2% in 2003 and 13.2% in 2002. The U.S. share of Singapore's NODX continues to decline: for 2003, the U.S. market absorbed 18.7% of Singapore NODX, compared to 21.7% for 2002, 22% for 2001 and 25.2% in 2000. NODX to Malaysia also continued on a downward trend, down 1.6% y/y in 2003 after declines of 6.3% y/y in 2002 and 16.9% y/y in 2001.

Many analysts see the decline in NODX to the U.S. and Malaysia as two manifestations of the same trend - the shift of final assembly operations out of Singapore to lower-cost countries, especially China, even though many of the components may still originate in Singapore. Indeed, exports of electronics components (integrated circuits, disk drives, etc.) to China rose by a spectacular 52% in 2H 2003 alone. In the case of the U.S., changing production patterns mean that products which used to be assembled in Singapore and exported to the U.S. are now being assembled in third countries, like China. In the case of Malaysia, the decline in Singapore exports may reflect the transfer of certain final production from Malaysia to China. And as for the EU, the boom in exports appears to reflect the export of pharmaceuticals and electronic components to final production points in Europe.

## Indonesia

In January, Singapore released for the first time data on trade with Indonesia. Taking only imports and domestic exports, trade totaled S\$26.2 billion (US\$15.3 billion) in 2003; the data does not include reexports, which could be significant. Imports were S\$14.5 billion, while domestic exports were S\$11.7 billion. The publication of the data follows complaints by Indonesian officials in 2003 about Singapore's lack of transparency in its trade with Indonesia.

### Singapore Says Surplus with U.S., We say Deficit

Based on Singapore trade data, Singapore's trade balance with the U.S. continued to be in surplus in 2003, at S\$2.4 billion (US\$1.4 billion), compared to S\$3.4 billion (US\$1.95 billion) in 2002. Total Singapore-US trade for 2003 was S\$64.5 billion (US\$37.7 billion), slightly more than the S\$62.5 billion registered in 2002.

U.S. data, on the other hand, suggests Singapore ran a deficit of US\$ 1.4 billion with the U.S. in 2003. According to US data, imports from Singapore were US\$15.2 billion; Singapore data puts the figure at S\$33.5 billion (US\$19.2 billion). Likewise, U.S. data put U.S. exports to Singapore at US\$16.6 billion, while Singapore pegs imports from the U.S. at S\$31.1 billion (US\$18 billion). The reason for the difference is unclear. Reexports are unlikely to be the cause of the different export numbers: the Singapore data of S\$33.5 billion does not include reexports; if it did, the figure would be even higher. Exchange rate movements are also unlikely to explain much of the difference, since the Singapore dollar/USD exchange rate has remained fairly stable.

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## STATISTICAL ANNEX

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|                  | <u>Total Trade (real terms, 1995 S\$ millions)</u> |              |              |              | <u>Percent Change</u>   |                         |
|------------------|--|--------------|--------------|--------------|-------------------------|-------------------------|
|                  | <u>1H 02</u>                                       | <u>2H 02</u> | <u>1H 03</u> | <u>2H 03</u> | <u>2H 03/<br/>2H 02</u> | <u>2H 03/<br/>1H 03</u> |
| Total Trade      | 215,890  | 232,292      | 231,612      | 261,366      | 12.5                    | 12.8                    |
| Exports          | 115,133  | 126,316      | 126,923      | 144,038      | 14.0                    | 13.5                    |
| Domestic Exports | 62,321   | 69,985       | 71,423       | 79,916       | 14.2                    | 11.9                    |
| Oil              | 6,354  | 6,790        | 6,992        | 6,751        | (0.6)                   | (3.4)                   |
| Non-oil (NODX)   | 55,967   | 63,195       | 64,431       | 73,165       | 15.8                    | 13.6                    |
| Re-exports       | 52,812   | 56,331       | 55,500       | 64,122       | 13.8                    | 15.5                    |
| Oil              | 698  | 692          | 670          | 656          | (5.2)                   | (2.1)                   |
| Non-oil          | 52,114   | 55,639       | 54,830       | 63,466       | 14.1                    | 15.8                    |
| Imports          | 100,757  | 105,976      | 104,689      | 117,328      | 10.7                    | 12.1                    |
| Oil              | 7,853  | 7,819        | 7,995        | 7,127        | (8.9)                   | (10.9)                  |
| Non-oil          | 92,904   | 98,157       | 96,694       | 110,201      | 12.3                    | (55.5)                  |

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

|                  | <u>1H 02</u> | <u>2H 02</u> | <u>1H 03</u> | <u>2H 03</u> | <b>Percent Change</b>   |                         |
|------------------|--------------|--------------|--------------|--------------|-------------------------|-------------------------|
|                  |              |              |              |              | <u>2H 03/<br/>2H 02</u> | <u>2H 03/<br/>1H 03</u> |
| Total Trade      | 208,747      | 223,501      | 225,134      | 248,814      | 11.3                    | 10.5                    |
| Exports          | 107,181      | 116,745      | 118,909      | 132,201      | 13.2                    | 11.2                    |
| Domestic Exports | 56,192       | 63,252       | 66,706       | 72,190       | 14.1                    | 8.2                     |
| Oil              | 9,552        | 11,307       | 13,031       | 12,358       | 9.3                     | (5.2)                   |
| Non-oil (NODX)   | 46,640       | 51,945       | 53,674       | 59,832       | 15.2                    | 11.5                    |
| Re-exports       | 50,989       | 53,493       | 52,203       | 60,011       | 12.2                    | 15.0                    |
| Oil              | 1,120        | 1,271        | 1,368        | 1,295        | 1.9                     | (5.3)                   |
| Non-oil          | 49,869       | 52,222       | 50,835       | 58,725       | 12.5                    | 15.5                    |
| Imports          | 101,566      | 106,756      | 106,225      | 116,613      | 9.2                     | 9.8                     |
| Oil              | 12,730       | 14,471       | 16,167       | 14,026       | (3.1)                   | (13.2)                  |
| Non-oil          | 88,836       | 92,285       | 90,058       | 102,587      | 11.2                    | 13.9                    |

**Total Trade (nominal terms, S\$ millions)**

|                  | <u>1H 03</u> | <u>3Q 03</u> | <u>4Q 03</u> | <u>2H 03</u> | <u>1Q 04</u> |
|------------------|--------------|--------------|--------------|--------------|--------------|
| Total Trade      | 225,134      | 119,742      | 129,072      | 248,814      | 131,126      |
| Exports          | 118,909      | 63,871       | 68,330       | 132,201      | 68,394       |
| Domestic Exports | 66,706       | 34,933       | 37,257       | 72,190       | 37,651       |
| Oil              | 13,031       | 5,970        | 6,388        | 12,358       | 7,011        |
| Non-oil (NODX)   | 53,674       | 28,963       | 30,869       | 59,832       | 30,640       |
| Re-exports       | 52,203       | 28,938       | 31,073       | 60,011       | 30,743       |
| Oil              | 1,368        | 528          | 767          | 1,295        | 870          |
| Non-oil          | 50,835       | 28,419       | 30,306       | 58,725       | 29,874       |
| Imports          | 106,225      | 55,871       | 60,742       | 116,613      | 62,732       |
| Oil              | 16,167       | 6,497        | 7,529        | 14,026       | 8,721        |
| Non-oil          | 90,058       | 49,374       | 53,213       | 102,587      | 5,4011       |

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

|             | <u>1H 02</u> | <u>2H 02</u> | <u>1H 03</u> | <u>2H 03</u> | <u>Percent Change</u>   |                         |
|-------------|--------------|--------------|--------------|--------------|-------------------------|-------------------------|
|             |              |              |              |              | <u>2H 03/<br/>2H 02</u> | <u>2H 03/<br/>1H 03</u> |
| Total       | 62,321       | 69,985       | 71,423       | 79,916       | 14.2                    | 11.9                    |
| USA         | 12,684       | 14,477       | 13,654       | 13,712       | (5.3)                   | 0.4                     |
| China/HK    | 8,210        | 10,226       | 10,762       | 11,670       | 14.1                    | 8.4                     |
| EU          | 9,196        | 10,734       | 9,433        | 10,930       | 1.8                     | 15.9                    |
| Malaysia    | 7,925        | 8,042        | 9,719        | 7,440        | (7.5)                   | (23.4)                  |
| Japan       | 5,486        | 5,423        | 6,194        | 6,703        | 23.6                    | 8.2                     |
| ((Hong Kong | 4,605        | 6,122        | 6,147        | 6,901        | 12.7                    | 12.3                    |
| ((China     | 3,605        | 4,104        | 4,615        | 4,769        | 16.2                    | 3.3                     |
| Taiwan      | 3,241        | 3,536        | 3,506        | 3,376        | (4.5)                   | (3.7)                   |
| Thailand    | 2,519        | 2,772        | 2,555        | 2,782        | 0.4                     | 8.9                     |
| Korea       | 2,223        | 2,113        | 2,503        | 2,573        | 21.8                    | 2.8                     |
| Australia   | 1,705        | 2,024        | 1,968        | 2,471        | 22.1                    | 25.6                    |

*Note: Figures in parenthesis denote negative value*

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