

ECONOMIC SNAPSHOTS

The Global Economy

The world economy expanded by about 4% in 1997, almost unchanged from 1996, supported by US growth as well as good performance of Asian economies in the first half of the year.

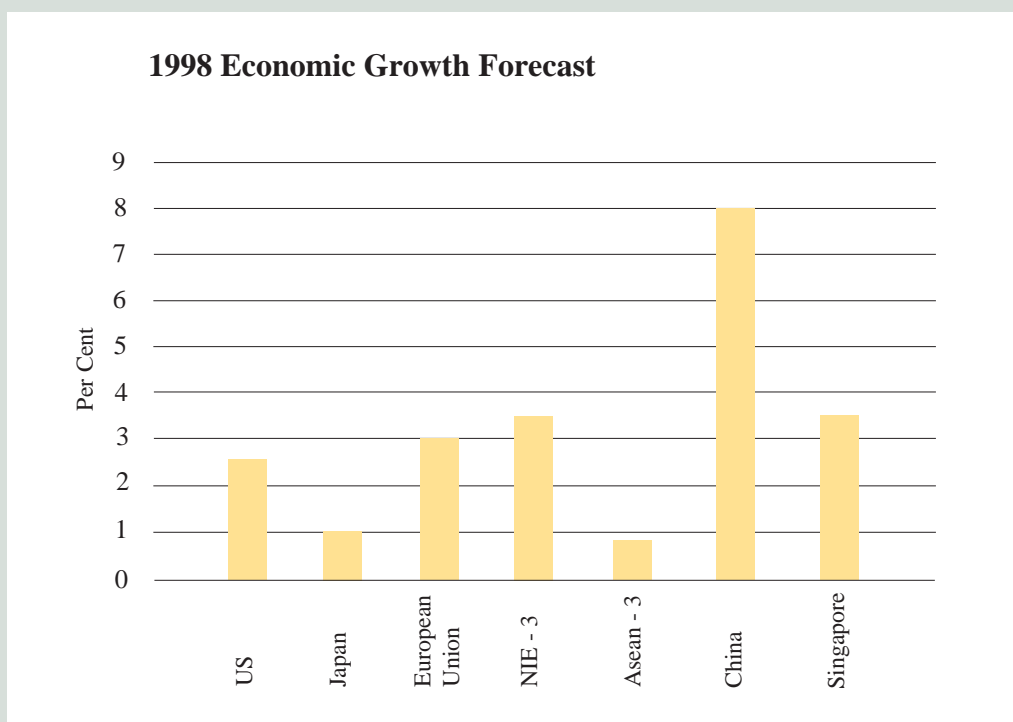
The US economy grew 3.8%, powered by strong corporate performance. Japan's economic growth slowed to about 0.9% in the wake of highly publicised failures in the financial sector, down from 3.7% in the previous year.

However, the Asian financial crisis, first triggered by the Thai baht devaluation in early July 1997, is expected to have severe knock-on effects not just for the region, but also for the US and Japan economies in 1998. Indeed, the crisis is expected to slow the global GDP to about 3%. For 1998, the US economy may have its growth rate reduced to 2.9%, and Japan's economy may not register any growth at all.

The Asian Economies

Any hopes that the economic malaise affecting several Southeast Asian countries would be just a short-term minor correction in Asian's miracle growth were dashed when the contagion spread to Japan and South Korea in November 1997. Japan is the second largest economy in the world, while South Korea is the world's 11th largest with a GDP which is larger than those in Indonesia, Malaysia and Thailand combined. In total, the International Monetary Fund is expected to have to put together bail-out packages amounting to a total of US\$100 billion for Thailand, Indonesia and South Korea.

Hong Kong and Singapore were among the few economies which were able to hold out against the Asian meltdown. The countries' currencies suffered relatively lower depreciation against the US dollar. Their relative financial



Source: *Economic Survey of Singapore 1997*

stability will help to attract foreign investors looking for an Asian base.

Across Asia, apart from the currency and stock markets, the property markets have also been hard-hit. Virtually, all countries are facing a glut in the property sector.

China managed to achieve a growth rate of 8.8% as foreign investment and exports grew, although it was lower than the 9.7% in 1996. The non-convertibility of the renminbi has helped to cushion the economy from the currency turmoil.

In 1998, China, Hong Kong and Singapore are expected to feel the full impact of the regional slowdown as their exports lose their competitiveness against those from countries whose currencies have been severely depreciated.

Overall, demand for exports is expected to shrink not just in the affected parts of Asia, but also in the US and Japan.

The Regional Economies

Indonesia GDP grew by 5.1% in 1997, down from 8% in 1996. The outlook for the country is uncertain, after its economy took a severe beating which saw the rupiah plummeting to below Rp10,000 to the US dollar in early 1998. Hyperinflation and unemployment will be challenges that the government has to tackle in the road to economic recovery. The growth rate for 1998 is expected to be negative.

Thailand's economy is likely to register negative growth for 1998 as well. The country's contraction of exports in 1996 was a harbinger of the events which unfolded in 1997 : the devaluation of the

baht, the fall in the stock market and the closure of 56 finance companies. The depreciation of the baht did help to spur export growth which gave Thailand a GDP growth of between 0.3% and 0.5% for 1997.

Expansion in manufacturing, construction and service sectors helped Malaysia maintain its growth rate at 8%, just slightly lower than the 8.2% in 1996. However, it is not likely that Malaysia, which has enjoyed an annual growth rate of above 8% for almost a decade, will be able to achieve a similar growth rate for 1998. The government has revised its 1998 GDP forecast to 3 to 4 per cent.

Although it was not as badly hit as some of its neighbours, the Philippines was also affected in the currency meltdown which saw the peso falling to record lows of below P40 to the US dollar. The outcome of the Presidential elections in May 1998 will play a part in the economic future of the country which saw its growth rate fall from 6.5% in 1996 to 4.5% in 1997. The growth rate for 1998 has been predicted at 3%.

Growth slowed down in Vietnam from 9.5% in 1996 to 9% in 1997 as foreign investments declined. The regional crisis also delayed the construction and development of projects, as Asian investors sought to conserve cash. The government's policy of insisting that revenues be collected in dong has been unpopular with foreign investors. Vietnam's cost advantage is expected to be eroded in the face of the devaluation in the region.

The Singapore Economy

Healthy economic growth registered in 1997

The Singapore economy grew by 7.8% in 1997, faster than the 6.9% growth registered in 1996. Despite the onslaught of the regional financial turmoil in the second half of the year, economic growth was bulwarked by the diversified structure of the Singapore economy.

Strong contribution from financial and business services, and construction sectors

The financial and business services sector, backed by robust offshore credit expansion and volatility in foreign exchange and stock markets, grew by a substantial 11% in 1997. The manufacturing sector, supported by expansion in the chemical industry and a recovery in the semiconductor industry, expanded by 4.3% after slowing to 3% in 1996. The commerce sector grew by 5.8% due to growth in intra-firm trade in intermediate goods and strong retail demand in the earlier part of the year. The transport and

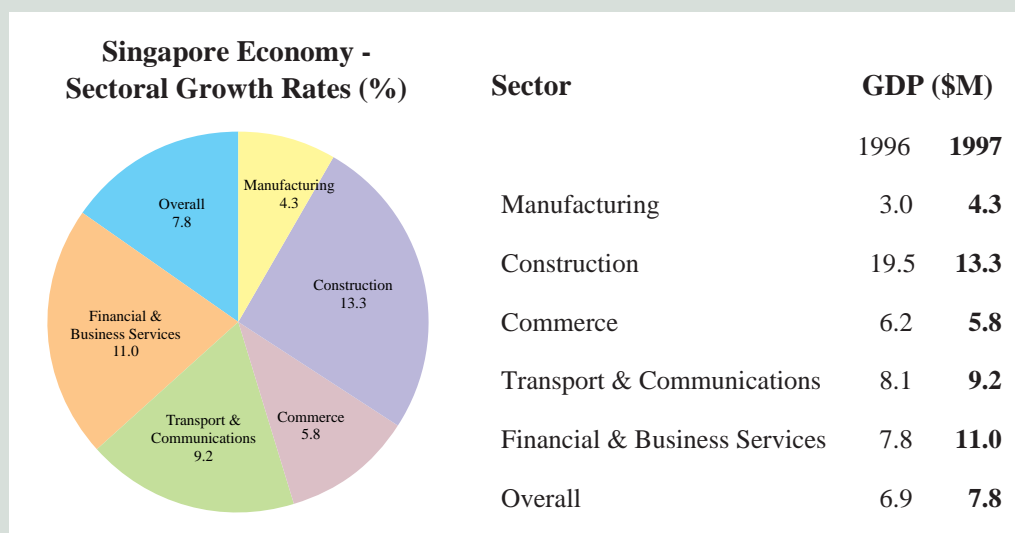
communications sector also grew by 9.2%, up from 8.1% in 1996.

Slowdown in the electronics sector

The electronics industry, was, however, affected by excess capacity in the disk drive segment and negative growth in the personal computer segment. The construction sector also saw slower increase in contracts awarded over the last one to two years. Nevertheless, strong public sector demand enabled it to emerge as the strongest performer among the sectors, expanding by a robust 13.3%.

Weaker economic growth forecast for 1998

The Ministry of Trade and Industry has revised its 1998 GDP growth forecast to between 2.5% to 4.5%. Weak regional economies will lower domestic demand in those countries and affect Singapore's exports of goods and services as they account for 23% of Singapore's non-oil domestic exports. The relative strength of the Singapore dollar as compared to the rest of the region will also erode the competitiveness of Singapore's exports.



Source : Economic Survey of Singapore 1997