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## The Canary In The Coalmine Revisited: Singapore's Budget 2009



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The latest data on the Singapore economy is, in a word, dreadful. The closely watched figures for NODX (non-oil domestic exports) for December 2008 registered a fall of over 20%, its third monthly contraction in a row, and on a quarterly basis a decline of over 13%. Given our view that Singapore is the world's 'canary in the coalmine', trade and exports in the rest of the world will be following the same pattern very soon. Indeed, the latest export performance data from the G3 economies and from other leading exporters appear to confirm this. The worse readings are coming out of those countries that are heavily tied to the global electronics cycle such as Korea and Taiwan, a club that Singapore unfortunately remains a member of despite recent efforts to diversify its economy into greener pastures.

Just as Singapore has reaped the benefits of global trade during a decade of strong growth, it must now suffer when trade collapses. Consumers the world over have to rebuild their balance sheets, and have hunkered down onto their home turfs as they get back to the bare necessities of life, which means a lot less foreign stuff from food to investments. The businesses that serve them are therefore suffering too. Consumption driven economies consuming local produce have never looked so good. And that is not Singapore's strong point.

As expected, Singapore's home grown consumption has already taken the hit. Even services are feeling the pain, for the first time in as long as I can remember looking at Singapore data. The electronics sector, never my favourite industry, has gone into freefall, whilst the perennial volatility of the pharmaceuticals sector appears to be settling into consistent gloom. The only light still on is construction, and no economy, however small, can exist on construction alone. Our SME members tell us that they can't get credit, and our lads in the shipping industry are seeking solace in the bar as we look out across the waters of the east coast at rows of static and very empty ships-the pride of Singapore's shipping fleet, sitting with nothing to do. The only things moving this weekend were the 70 foot Volvo Ocean Race yachts, struggling to avoid hitting immovable 700 foot tankers on the start of their next round-the-world race leg to China. Little solace they will find there, as China's export machine also discovers what it is like to run into a concrete wall after a decade of growth.

On this basis, expect the next two quarters of this year at the very least to be the worst on record to date for the Republic (worse even than the Asian financial crisis of 1998), and the year as a whole to be a write-off. Singapore is a call option on global trade. In this context, the Chamber's previous extremely negative outlook on the Singapore economy (BCOC Economic Briefing November 2008 'The Perfect Storm') is unfortunately no longer a debate, but reality. And for followers of Asian decoupling theory, may they rest in peace (although economic theories never die peacefully, and doubtless decoupling will be back in a few years time). A contraction in GDP of less than 5% will be a good showing for Singapore this year. Companies will eventually start cutting jobs, especially in the vulnerable manufacturing sector, with the knock-on effects on consumer confidence and spend. The only question now for Singapore is how long it will stay this bad-merely a horrible 2009, onwards into 2010, or at an extreme, beyond even that? This is not just for Singapore but for all of export

dependent Asia, including China. Yes, the global capitalist empire is striking back and unleashing the largest force of simultaneous fiscal stimulation and monetary easing the world economy has ever experienced and Singapore along with the rest of Asia are fully committed. But as we all know, this force will take a long time to have any effect, although I do believe eventual victory is certain.

From a Singapore budget viewpoint, no one is going to argue that at a minimum there will be no relief from bad news for the rest of this year. Some form of aggressive support and relief for businesses and consumers in the budget is required, and I believe almost guaranteed. The only question is what, and how?

The hot spots for British firms, and the Chamber economist's recommendations, include the following:

- 1. GST:** As a direct pay as you spend tax, GST has a drag effect on consumption. This effect tends to be small when times are good and consumers/businesses inclined to spend freely, but disproportionately increases its drag effect as times get worse and the psychology of spending shifts to careful examination of all costs before spending. As an economically progressive chamber, we support the long term Singapore government policy of shifting taxation from the blunt instrument of income tax to the targeted policy of consumption taxes. But in times like this when it is difficult to get anyone to open their wallets for anything, some relief is called for. A temporary relief or 'holiday', rather than an outright cut in GST, is one option. Unlike giveaways, which tend to be saved not spent, GST relief has a major advantage that it encourages consumption, as you only benefit if you buy something. It is also progressive unlike giveaways-more spend means more tax relief. Our retailer members, who happen to include the President of the Chamber, will I am sure be happy with any offering in this domain.
- 2. Personal income tax:** The policy for Singapore to continue to seek to maintain top grade tax competitiveness in the world, when competition for top talent will only get stiffer in a downturn, should remain a core tax strategy. Our previous call for the top marginal income tax rate to be lowered to 18% to match the corporate tax rate still holds. There has never been a better time.
- 3. SMEs:** A surprisingly large number of British chamber members are SMEs, which mirrors Singapore's own large population of SMEs and their enormous dependence on the smaller business sector. Despite all the rhetoric from the banks, the fact is that the flow of essential credit on reasonable terms has shrunk dramatically, the normal pattern in a banking crisis. The SME segment suffers the most from potential liquidity and cash-flow difficulties, and otherwise very sound companies can go bust without credit lines. The Government has already taken steps to raise their guarantees to the banks for SME credit lines, a positive step. This should be extended to as much as 95-100% for qualified cases or specific sectors, and /or other SME supporting measures be considered that increase the flow of credit at non penal terms.

As ever, some form of extended support for low income families will be required and doubtless provided by the Government. Finally, if all this sounds too depressing, a reminder of another point I

made in the November briefing on 'the canary'- it may be the first to drop when the air is bad but it will be the first to rise again when the world recovers. Like those VOR yachts, the Singapore economy can turn on a dime. It will still be one of the best places to be for stable growth in three years time and beyond. And the same goes for the Singapore dollar.

The chamber is interested to hear further feedback from members on what they hope for in the budget. Please email the chamber with your views.

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