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S'pore can now handle downturn better: economist

But how effectively it adjusts to longer term challenges remains a question

By ANNA TEO

(SINGAPORE) Every leading indicator is pointing to a slowdown, but the Singapore economy will probably weather the coming cyclical downturn better as it is now leaner, fitter and more resilient, says economist Manu Bhaskaran.

That's the short-term outlook. But questions persist about how effectively Singapore is adjusting to cope with the longer-term challenges, he adds. And about why there aren't many more dynamic local companies that can drive the economy.

Speaking yesterday at the Institute of Policy Studies (IPS) Singapore Perspectives 2005 forum on the challenges facing the economy, Mr Bhaskaran, an IPS adjunct senior research fellow, said he is now 'somewhat less dismal' about how the downturn might pan out here.

This is despite major downside risks to global growth - apart from the much-cited electronics slump - such as geo-political tensions in the Middle East and complacency about how the Chinese economy will fare.

Given growing China risks, including a weak credit culture and 'over-investment binge', Mr Bhaskaran - who is also a partner and board member of Washington-based Centennial Group, and head of its economic research practice - believes it is premature to declare any soft landing for the mainland economy.

But he believes the Singapore economy is now more resilient because its manufacturing sector has diversified beyond electronics into new growth areas.

According to him, the worst is over, too, in the 'painful adjustments' the economy has had to make in recent years, as it underwent enforced restructuring in the face of competition, and as the property bubble burst.

More importantly, the region - particularly Indonesia and Malaysia - is in better economic shape than before.

Mr Bhaskaran is also sanguine about the US economy, which apart from perhaps two quarters of 'fairly lacklustre' growth this year, remains on a firm footing, he said. He does not see the greenback falling precipitously and collapsing.

So 'the picture looks good in the short term'.

Indeed, his forecasts see Singapore growing 4.6 per cent this year - at the high end of the official 3-5 per cent projection - after the 8.4 per cent rebound last year. And GDP growth is expected to pick up to 6.4 per cent in 2006, according to his forecasts.

That said, some challenges remain.

While the average profitability of US multinationals across developing Asia rose in 2002 and 2003, the returns of US MNCs in Singapore fell in 2003.

Another issue is the relative dearth of flourishing dynamic local enterprises compared with other countries. This raises questions about the ability of companies to compete and about 'regulatory intrusion', and whether the government is still too dominant in the economy. That may have been all right in the past, but there should now be more privatisation, Mr Bhaskaran said.

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