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SINGAPORE: A dual economy is emerging

SINGAPORE: A dual economy is emerging in Singapore, say economists at the annual Singapore Perspectives Seminar organised by the Institute of Policy Studies.

Moving forward, the Singapore economy will be growing at 3 to 5 percent every year, which is creditable for a mature economy.

However, economists are warning of divergent growth patterns between different businesses and income groups in Singapore.

Businesses catering to global markets are seeing robust growth, but companies serving the domestic markets are lagging behind as private consumption is growing at only 3 percent - or less than half the GDP expansion of 8 percent.

In the residential property sector, the luxury end is seeing a boom - thanks to foreign demand, with a strong increase in buyers from Indonesia and India.

However, demand at the mass market level has yet to pick up.

For example, mortgages are expanding at 2.1 percent, and the construction industry is barely growing, and as further evidence of a dual economy emerging, offshore lending and private banking are also doing well, but domestic consumer lending remains sluggish.

In 2003, business returns by local controlled companies was 9.3 percent, while that by foreign controlled companies was one and a half times more at 14.5 percent.

In light of a sluggish domestic demand, economists are questioning if the proposed GST hike may further dampen private consumption.

The government has said it will study the implementation of the GST to offset its impact on the lower and middle income groups. Economists are also asking the government to reduce income tax rates for these groups.

In the near term, economists say cyclical risks are rising in global demand and growth in Singapore could be hampered if business and consumer spending in the US fell.

"It's a very, very clear picture - there is going to be a global economic deceleration despite the fact that everyone feels extremely good right now. It is inevitable, we have to be

prepared for it in the next 6 months, but I think it will be contained," said Manu Bhaskaran, Adjunct Senior Research Fellow, Institute of Policy Studies.

Mr Manu added that Singapore is well poised to handle the downturn due to a diversified economy and strong Asian demand.

The services and biomedical sectors are doing particularly well, but not electronics, due to the current tech slowdown.

Tourism receipts are also flat.

Despite growing tourist arrival numbers, the amount that the travellers are spending is same as 5 years ago.

Tourism's contribution to GDP declined from 6 percent of GDP in 1993 to 3 percent in 2002, though the sector should turn around sharply, contributing to 5 percent of the GDP in 2015, once the integrated resorts are up and running. –

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