Beware the false dawn

LOH CHEE KONG
cheekong@mediacorp.com.sg

POINT OF VIEW

Hands up if you had expected Singapore to be hit harder by the ongoing recession, which has been touted as the Republic's worst since independence.

To be sure, the man-in-the-street has felt the impact: In the first half of the year, 18,800 jobs have been axed and thousands have had their wages cut. Exports continue to languish as more retrenchments loom.

Yet, less than 10 months after the Republic was officially in recession, its economy is on the mend, with the property and stock markets on the upswing: GDP grew 20.7 per cent in the second quarter — reversing five consecutive quarters of contraction.

Even in the United States, the epi-centre of the crisis, hopes are high that the worst is over, despite the persisting record levels of unemployment.

As *New York Times* columnist Paul Krugman noted last week, the financial panic late last year was as severe as the banking panic of the 1930s, with key economic indicators such as world trade and stock prices falling just as fast.

But this time, the plunge was halted after just one year — thanks largely to the pro-active injection of public funds to prop up ailing firms and banks.

Here in Singapore, pro-active policies were also the chief reason why the economy has not sunk deeper into the mire: Namely, the Jobs Credit Scheme and the Spur programme.

Going by historical data, the recession thus far should have resulted in greater job losses.

Singapore's official unemployment rate of 3.3 per cent is artificially surpressed by the Government's initiatives, since out-of-work Singaporeans and Permanent Residents undergoing retraining are not counted among the unemployed.

Whether external demand will pick up sufficiently to absorb the workers back into the work force remains to be seen.

Forecast Singapore economist Vishnu Varathan points out that it was inevitable that some of the measures were to "buy time".

But in doing so, Singapore has avoided panic-stricken layoffs while giving time for employers to adjust their businesses accordingly.

JUST NOT ENOUGH JOBS

Meanwhile, major economies such as Japan and Germany are seeing a rebound, driven largely by inventory adjustments.

But many are wary of a "false dawn", wary of mistaking the end of de-stocking by manufacturers or the rise in discretionary consumer purchases for a genuine upturn.

The bottomline is that there are still not enough jobs in the world to go around. Simply put, it would take several years to replace the jobs that were spawned by the financial bubble and wiped out subsequently.

A permanent fix for the global economy also requires people elsewhere to take over from the Americans in spending more and saving less — and that is not going to happen anytime soon.

As Malaysia's Economic Planning Minister Nor Mohamed Yakcop pointed out in a Kuala Lumpur symposium earlier this month, rolling out multi-billion-dollar stimulus packages was "the easy part".

The Singapore Government has the means to extend its ongoing initiatives for as long as required. But it is one thing to incur a one-off, large fiscal deficit — and quite another to do so on a sustained basis.

The long road to a global recovery is fraught with risks.

Experts warn of a second dip and an asset bubble building up in China, which may have overdosed on its own prescriptions against the downturn.

There is also the question of how the US will fund its record budget deficits.

A flood of government bonds could drive up long-term interest rates and undermine any sustainable recovery.

Policymakers can take a bow for their successful efforts to stave off a full-blown recession. But the real battle lies in ensuring the global economy can stand on its own feet.

Singaporeans who think the rainy days are over should think twice.

The writer is a correspondent at TODAY.