Recession and global financial turbulence return

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The announcement by the Singapore government this week that the island's high-tech-based economy had officially entered a recession—defined as two consecutive quarters of negative growth—has served to underline the global impact of the slowdown in the United States and the growing fears of a global recession.

According to the latest data, Singapore's gross domestic product fell at an annualised rate of 10.1 percent in the second quarter, after contracting by 11 percent in the first quarter.

At the same time, rapid movements in so-called "emerging financial markets", arising from fears that Argentina could default on its debts and/or devalue its currency, have prompted concerns that the international financial system could see renewed turbulence on the scale of the "Asian crisis" 1997-98.

The latest Argentine crisis erupted on Tuesday when the government was forced to pay 14 percent interest on 90-day treasury bills to help refinance $850 million in dollar denominated debt, compared to the 9 percent interest it paid on similar bills last month.

With Argentina accounting for around 25 percent of all emerging market debt, the interest rate hike produced a reaction around the world. In Brazil, stocks fell by more than 2 percent and the currency fell to its lowest level ever against the US dollar. In financial markets in Africa, Latin America, Eastern Europe and Asia, stocks, bonds and currencies were sold off in what was described as a "classical mode of financial contagion."

In London, chief European economist at Bear Stearns, David Brown, told clients that it was "back to square one again on emerging market jitters, with contagion fears breaking out among investors." Brown said that while Argentina was in the forefront of market concerns "worries about Turkey and Poland are in the thick of it as well."