

The 33rd Singapore Economic Roundtable

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The 33rd Singapore Economic Roundtable (SER) was held virtually via Zoom on 17 November 2020. Conducted biannually by the Institute of Policy Studies (IPS) Governance and Economy research cluster, this edition brought together over 40 participants comprising economists, academics, business leaders and policymakers to assess economic conditions and Singapore's role as a hub for the region.

The roundtable was conducted under [Chatham House Rule](#) and chaired by Manu Bhaskaran, Adjunct Senior Research Fellow at IPS. The complete proceedings from the 33rd SER will be documented in an IPS publication and released later. A summary of the issues discussed is presented here.

Macroeconomic Overview: A COVID-19 Driven Recession

With over 300,000 new infections globally, COVID-19 has significantly impacted the global economy in 2020. Global GDP growth has sharply declined in 2020, with both exports and imports falling by over 10 per cent in the first half of 2020. In the same period, government expenditure has seen an approximate 2 per cent increase from the previous two quarters. In response to the pandemic, G3 countries implemented substantial policy easing. Their central banks' balance sheets rose to over 50 per cent of a four-quarter moving average of total GDP in 2020. Meanwhile, industrial production in several Asian countries including China, Vietnam and Indonesia has seen early recovery in the second half of 2020.

The Singapore economy saw a downshift in growth momentum in 2020. This year's forecasts indicate a negative 15 per cent GDP growth year-on-year in H1 2020. Advance estimates suggest a strong quarter on quarter recovery in late 2020, pushing GDP growth up to a negative 10 to negative 5 per cent growth year-on-year. Economic activity in most sectors in Singapore have declined in 2020, with travel-related and construction services seeing a decline of between 60 to 80 per cent quarter-to-quarter in early 2020. Economic activity improved in Q3 2020. The current economic downturn has been deeper compared with previous recessions.

Disrupted Labour Market in Singapore

COVID-19 has disrupted the labour market in Singapore, especially in Q2. Virtually all sectors saw declines in employment. Overall, employment declined by over 100,000 jobs since the start of 2020. Employment changes in 2020 have been much sharper compared with other times of recession. Other recessions averaged out between negative 1 to 2 per cent employment change on a quarter-to-quarter basis across a 12-month period. Singapore has seen an almost 3 per cent decline in employment quarter-to-quarter in Q2 due to COVID-19. Labour markets adjustments varied across the sectors. In 2020, approximately 80,000 workers in Singapore were placed on shortened work weeks or temporary layoffs. Retrenchments rose by approximately 10,000 jobs during the same period. F&B and construction labour markets were impacted heavily, seeing an employment loss of between 15,000 (construction) and 25,000 (F&B).

Some participants warned about the risk of a premature withdrawal of policy support for the economy. While there were legitimate concerns about public finances after the extraordinarily large fiscal support programmes Singapore introduced during the pandemic, the downside risks that remained in the economy argued for continued policy support. A related comment was that Singapore needed more automatic stabilisers, for example, in the form of durable safety nets. Over time, the fiscal position does indeed need strengthening and a range of options could be considered — from raising GST rates to lowering the threshold for being in the GST net to introducing a wealth tax. Policy makers might also want to consider providing equity injections into small businesses rather than relying on measures to support bank lending to these firms.

Speakers also remarked that recent immigration and manpower policies are too blunt. Work has now become geographically unbound. Participants shared anecdotes of how foreigners who had their work pass applications rejected in a bid to encourage Singapore-based companies to hire locals still end up getting employed by the same companies to work remotely.

Participants also noted that with Singapore's ageing population, the fiscal base to support the economy is getting smaller with the "boomer" generation retiring soon. Stimulus packages to encourage childbirth remain unsuccessful. Speakers shared that Singapore has unfortunately doubled down on old policies that have been less effective. Countries, particularly in Scandinavia, have successfully reversed the ageing population. Social attitudes such as the role of fathers in child upbringing and the constituency of a family unit are important. Family units in Scandinavian countries are more diverse with general attitudes towards single mothers, unmarried couples being more favourable. Singapore remains excessively pro traditional-family unit with most of its policies based on the typical family composition. It will take time to change and in the meantime, immigration is still needed to deal with the labour shortfall.

Key Global Issues Moving Forward

The US economy is still in a recovery phase after the deep contraction seen in H1 2020. Aggressive policy response reduced solvency tail risk, but more fiscal support is needed to aid the American economic recovery. While the US Presidential Elections are completed, it remains to see if President-elect Joe Biden can attain bipartisan support for major fiscal policies. A divided Congress suggests a smaller Phase 4 stimulus package with passage likely

coming after Inauguration Day in January. There is also limited scope for major legislative changes such as corporate tax hikes. There is also likely a return to conventional foreign policy making but US-China tensions are likely to continue.

President-elect Biden is also unlikely to rush into trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), despite progress shown in the Regional Comprehensive Economic Partnership (RCEP). Domestic pressures will dictate the pace of US trade policy. However, US under Biden is expected to steer away from the America First approach and return to multilateralism. US is likely to seek to build up industrial capabilities in Asia to be a viable alternative to China.

Speakers also cautioned measuring the direct impact of RCEP agreement on Singapore. Trade agreements generally have longer-term impacts. Over time, RCEP and possibly CPTPP will help build a more productive, efficient production centre in Asia. Singapore should continue promoting itself as a regional hub or headquarters in Asia.

Robotisation Trends

In many countries with ageing populations, the risk of future shutdowns due to social distancing measures may bring forward companies' decisions to invest in industrial robots. Annual shipments of industrial robots globally have increased sharply in 2020 to over 630,000 units in H2 2020. While countries such as Germany and Japan are leading the robotisation of their industries, China, US, and many European states are also not far behind.

Singapore has recently introduced the new Tech.Pass to attract top talent with experience in areas such as AI, e-commerce, and cyber-security. However, the tightening on work passes has made expatriates feel less welcomed. Conversations on immigration have often become emotionally charged. Singapore still needs the "high-end highly skilled" talent if it intends to continue innovating.

SPECIAL SESSION: Innovation in Singapore

The Special Session examined innovation in Singapore and how the country promotes innovation amongst its industries. 2020 has been a year of change because of COVID-19. Increasingly, companies have adopted new technologies such as robotics and telecommuting. Industries such as semiconductor and advanced manufacturing will become important industries for Singapore.

Innovation Policy — A Broad Overview

Innovation can be characterised as uncertain, cumulative and collective. To promote innovation, innovators must have strategic control over their R&D, financial commitment, and organisational integration to promote pro-innovative decision making. The innovation system in Singapore consisted of MNCs and the government. MNCs were at the forefront of innovation with the government playing a supporting role. Natural spinoffs would occur eventually. This system has caused an upgrading of Singapore's R&D capabilities. The system has successfully created input growth in innovation such as R&D and outputs such as further investments by MNCs. However, it remains to be seen if there is an emergence and growth of innovative firms.

Innovative firms in Singapore lack organisational capabilities. Such capabilities come from well-established companies that create organisational capabilities and a large portion of new technologies. Questions remain if the higher-end organisational capabilities that are needed to develop innovative firms can be transferred from MNCs — whose main advantage are said capabilities — to companies in Singapore. To facilitate innovation in Singapore, it should look to attracting more companies with higher capabilities and increasing the pool of managers and engineers that possess higher organisational capabilities. There should be a strengthening of linkages between larger and venture companies.

Innovation in Industry

Innovation in semiconductor and advanced manufacturing centres on providing solutions to enable the development and implementation of new ideas and technology, solve problems, improve productivity, and stay ahead.

Participants raised queries on whether ownership — whether foreign or local — mattered. According to the speakers, Singapore's companies are 80 per cent owned by MNCs and 20 per cent by local SMEs. The reverse is true in other countries such as South Korea. Speakers also cautioned that it is not a question of which model is better. Complementing and collaboration with MNCs makes it easier to spark new companies. This makes upgrading of local capabilities much easier. There is a limit to this upgrade as organisational capabilities do matter. MNCs are willing to collaborate and thus, upgrade. Parting with organisational capabilities remains difficult for MNCs.

Singapore is also noted for having favourable financing policies and options for would-be innovative firms. Speakers recommended that for such high-tech activities, companies must lead the innovation process, objectives, and outcomes. This is due to the secretive nature of potential breakthroughs. It is difficult for companies to fully adhere to strict outcome requirements stipulated in government-related financing due to the uncertainty in innovation. It would also be good if government leadership understand the R&D process better.

Talent remains a pivotal concern in Singapore's innovation. It is important to bring both the entrepreneurial people the Tech.Pass policy targets as well as Tier 1 individuals, leading scientists, and engineers to push Singapore's innovation process further.

Speakers also shared the impact of social norms on recruiting talent. Anecdotally, parents discourage their children from entering the manufacturing sector or taking over their businesses. The nature of the business is difficult where payoffs do not justify the effort required. One suggestion to encourage younger people to enter the sector would be to provide a roadmap or a vision. Many younger Singaporeans are attracted towards opportunities of cumulative growth or self-improvement. If the industry can show how the employee can improve over time, younger Singaporeans will be more attracted to the industry.

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