The 36th Singapore Economic Roundtable

By R Avinash

The Governance & Economy Department of the Institute of Policy Studies (IPS) held the 36th Singapore Economic Roundtable (SER) on 2 June 2022. The event had a total of 35 participants including economists, academics, business leaders, and policymakers from the public and private sectors.

The 36th SER was divided into two sessions. The first was a special session on the topic of Sustainability. This involved Dr Asif Iqbal Siddiqui, Senior Visiting Scholar at the Economic Growth Centre of the School of Humanities and Social Sciences at Nanyang Technological University; Mr Frank Phuan, Chief Executive Officer and Co-Founder of the Sunseap Group Pte Ltd; and Mr Tan Szue Hann, Chairman of Sustainability at the Singapore Institute of Architects.

The second session of the SER studied the macro-economic outlook and its implications for monetary and fiscal policies. Issues such as the impact of China's economic slowdown and the Ukraine war were discussed by Mr Ng Weiwen, Lead Economist of the Economic Policy Group at the Monetary Authority of Singapore (MAS), Dr Jade Vichyanond & Mr Justin Lim, economists at the ASEAN+3 Macroeconomic Research Office (AMRO), and Mr Heng Koon How, Executive Director & Head of Markets Strategy, Global Economics and Markets Research at United Overseas Bank Limited (UOB).

The roundtable was moderated by Mr Manu Bhaskaran, Adjunct Senior Research Fellow at IPS. The complete proceedings from the 36th SER will be documented in an IPS publication and released later. A summary of the issues discussed is presented here.

Session One: Sustainability

Dr Asif Iqbal Siddiqui noted that sustainable development has been an integral part of Singapore's independence story since 1965. He argued that people had to examine the environmental and social impacts of certain economic activities. To this, a cost-benefit analysis had to be implemented in order to understand the equilibrium that was required. This was in line with the United Nations' (UN) drive towards global sustainable development. Furthermore, it was synchronous with Singapore's own plans.

It was observed that Singapore had published its own climate aims. Initiatives such as the Voluntary National Review 2018, the Singapore Green Plan 2030, and localisation efforts for the Sustainable Development Goals (SDGs) were intended to pull Singapore in that direction.

Social sustainability was also on the agenda as the implementation of SDGs was an overarching effort aimed at inculcating change from the lowest level upwards.

Singapore's commitment to phasing out carbon by 2050 was highlighted. It was also observed that corporate sustainability had gained momentum and was growing steadily. Furthermore, there were plenty of opportunities for small and medium enterprises (SMEs) to ride this wave. To successfully transition to a sustainable model, a company's capacity gap had to be understood so that capabilities could be built up. Hence, capacity development was vital.

The Solar Industry

Mr Frank Phuan from Sunseap spoke about Singapore's desire to reduce its 95 per cent dependence on natural gas for electric power generation by, for example, accessing regional power grids. The plan was to be 100 per cent carbon free by 2050. He stressed that solar power in particular was economically and socially beneficial. Singapore is one of the densest cities in the world for solar power generation. As a result, government agencies and the solar industry had been coming up with ways to make this energy transition feasible.

For example, the Jurong Town Corporation (JTC) has land-based solar projects abroad due to land scarcity in Singapore. Singapore also has mobile solar farms. Most of them are situated offshore. Solar panels on the rooftops of HDB flats are also an example of this strategic use of space. These efforts are intended to meet Singapore's target of generating 8.6 gigawatts of solar power by 2050.

In addition, energy storage solutions are required to facilitate the use of solar power. Chargers are designed to take up less space; such equipment help in improving energy efficiency and reducing the carbon footprint. In addition, the utilisation of technologies like artificial intelligence (AI) to facilitate maintenance work and information gathering adds to the multifaceted evolution of the solar industry.

Crucially, the exponential growth seen in the solar power industry is creating "green" jobs for locals. The solar industry has offered full-time jobs to people without any experience in solar panel installation. Mega projects are also getting off the ground through the integration of regional power grids in places like Batam. This could also create more jobs for people in Southeast Asia as the push towards sustainability accelerates.

Sustainable Architecture

Mr Tan Szue Hann presented the contributions of the built environment industry to sustainable development. Built environment is the marriage of architecture with the need to design environments that satisfy all aspects of human living. Built environment has a "green" attribute, with designers and architects deeply considering the effects that their creations will have on the environment. Mr Tan argued that built environment was the perfect vessel for both the economics and technology of sustainable development. If green economics was the mind of sustainable development, and green technology its muscles, then built environment was its skeleton.

With this in mind, there were seven environmental aspects of sustainable architecture. They were education & integration, climate action, natural capital, resource management, urban harmony, health & wellbeing, and adaptability & longevity. Each facet played a crucial role in designing commercial and living spaces that were environmentally friendly. Mr Tan concluded by arguing that green finance, technology, and architecture were mutually complementary fields that provided Singapore with an innovative roadmap for the future.

Discussion Session

Sustainability Goals

The panellists were asked what policy changes were needed in their respective areas that would allow Singapore to achieve its sustainability goals. Dr Siddiqui responded by stating that Singapore had always been vigilant about changes. There was no need to reinvent the wheel. However, the impact of climate change was happening so rapidly that it would be wise for Singapore to prepare for a climate emergency.

It was good that the discussion is now centred on an energy reset, he added, with policy tools such as carbon taxes being implemented. However, this must be complemented by the appropriate use of space as well as further reduction in the use of plastics. The key, however, is to strengthen institutional capacity. Since Singapore has always functioned with a top-down approach, it is incumbent upon policymakers to be familiar with the latest sustainability research. Only then would educational and public-outreach measures be more effective.

Mr Phuan argued that there were three areas where change is needed. First, industry standards had to be ironed out. He referred to the Renewable Energy Certification Standards (RECS) that had been set a few years back. More such standards across the board would allow the rules of the game to be identified. This would standardise things such as battery standards and carbon credits trading.

Second, Singapore had to work harder on building better relations with its neighbours. Singapore's neighbours like Malaysia and Indonesia have huge sources of water, food and energy. Singapore would benefit tremendously if it were able to tap these resources. To do this, a good foreign policy was necessary.

Third, trade associations and chambers (TACs) could forge sustainability alliances that pool disparate sustainability groups. This would allow a more coordinated sustainability effort across various industries. The other panellists agreed that an alliance of TACs was a good idea as it allowed SMEs to punch above their weight.

Mr Tan stressed that strategy mapping had made sustainability policy possible. Standardisation is crucial in establishing sustainability practices. However, it was generally agreed that there was still room for improvement.

Sustainability for SMEs

A participant noted that many SMEs were still in fire-fighting mode as they were concerned about a shortage of labour and profit-making. As such, they would likely be caught off-guard by Enterprise Singapore's (ESG) implementation of a sustainability agenda. There was a suggestion for the formation of a dedicated government agency, that SMEs could liaise with to understand and comply with the agenda. This is useful as it can be very expensive for SMEs to invest in infrastructure like solar panels.

Mr Phuan responded by stating that he understood the struggles of SMEs to become sustainable. However, there was a misconception that being sustainable meant high expenses. Solar companies like Sunseap have schemes where they install solar panels for business owners in the region with no upfront costs. He also stated that many banks were willing to fund solar residential development through programmes, like UOB's U-Solar. The hope was that in the coming years, getting help for sustainable transformation would be as simple as taking out a mortgage.

Mr Tan chimed in by stressing that there were plenty of opportunities for SMEs to innovate and contribute to ESG's vision of sustainability. He argued that an increase in energy prices would see costs for green technology go down for SMEs as the alternative would be much cheaper that traditional sources of energy.

Session Two: Macro-Economic Outlook for Singapore and Implications for Policy

MAS provided an overview of the latest developments in the global economy as well as an overview of Singapore's economy. MAS noted that the progressive easing of public health restrictions in most countries in the latter half of 2021 had released pent-up demand. This was reinforced by the flow-through of previous policy support. However, further supply disruptions brought about by a renewed COVID outbreak in China, coupled with the Russia-Ukraine conflict, contributed to a slowdown in global growth to an estimated 0.4 per cent in the first quarter (Q1) of 2022.

The rebound in activity had been accompanied by an increase in inflation in many economies since mid-2021. The global headline inflation rate reached close to 5 per cent in Q1 2022. This was the highest level seen since the third quarter (Q3) of 2008. Short-term supply constraints and higher commodity prices resulting from the Russia-Ukraine conflict had contributed to inflationary pressures. However, tightening labour markets and rising core inflation in some countries pointed to a greater inflationary process taking root.

Economic growth was expected to moderate — from 5.4 per cent in 2021 to 3.8 per cent in 2022. As post-pandemic recovery continued and monetary policies were tightened to ease rising inflation, economic confidence had been undermined as higher prices started eroding real incomes. Retail sales in the G3 economies remained resilient over the past quarters. Despite the Omicron wave and the Russia-Ukraine conflict, mobility normalised almost to pre-pandemic levels. Asia ex-Japan would be affected by growth slowdown and near-term supply bottlenecks in China, where public health measures affected domestic demand and caused production and logistical disruptions.

However, growth in Asia ex-Japan would be bolstered by continued recovery in domestic demand in regional economies, which lagged behind the advanced economies. The outbreak of the war in Ukraine exacerbated inflation through its impact on food and energy prices. Global manufacturing PMIs showed an intensification of input cost pressure in March 2022 compared with February, with costs continuing to rise in May in the G3 economies. All in all, global inflation was projected to rise to 4.5 per cent in 2022 from 2.8 per cent in 2021 before slowing down to 2.6 per cent in 2023. Ultimately, the recalibration of monetary policy accommodation, the progressive resolution of supply chain bottlenecks, and the moderation of global growth should eventually help contain inflation.

The Impact of the Russian-Ukraine War on Singapore

The conflict in Ukraine has fostered renewed uncertainties regarding the economic outlook for the rest of 2022. Singapore in particular has minimal direct trade linkages to Russia. However, it is still indirectly exposed through income and production channels. For the indirect income channel, Singapore's key export partners with significant exposure to Russia suffered income losses, which in turn reduced demand for exports. With this in mind, Singapore's exposure to Russia through these third countries accounted for a mere 0.55 per cent of its aggregate nominal GDP.

An overall analysis of global trade as well as input-output linkages suggests that Singapore's direct and indirect exposures to Russia were relatively small. However, the impact could be worsened by confidence effects arising from high inflation, tighter financial conditions, and heightened uncertainty, which would restrain domestic consumption and investment.

Labour Market

Total employment rose across all sectors in Q4 2021 for the first time since the pandemic began. Employment and modern services expanded at a steady pace while all other clusters saw a turnaround in employment. The resident unemployment rate fell from 3.5 per cent in September 2021 to 3.2 per cent by the end of 2021. It declined further to 3 per cent in March 2022. Ministry of Manpower (MOM) estimates show that total employment continued to expand in Q1 2022. This was largely driven by the increase in non-resident employment as border restrictions were progressively lifted.

Job vacancies in Q4 2021 demonstrated a strong demand for workers. The seasonally adjusted job vacancy numbers rose further from September to December in 2021 with most sectors seeing higher vacancy numbers than pre-pandemic levels. The seasonally adjusted ratio of job vacancies to unemployed persons rose from 1.95 in September 2021 to 2.11 by the end of 2021. Employment growth was projected to be firm across more sectors even if labour demand were in pockets of external oriented sectors. For the whole of 2021, resident employment was expected to continue to expand, albeit at a slower pace as the resident labour force was largely utilised.

Although the labour market was expected to remain tight, wages were projected to rise, leading to high unit labour costs. MAS core inflation was expected to average 2.5 to 3.5 per cent in 2022. Public transport and accommodation inflation were expected to stay firm in the near term. For the whole of 2022, CPI All-Items Inflation was forecast at 4.5 to 5.5 per cent. Since the off-cycle tightening of monetary policy in January, the global economy had experienced fresh shocks in inflation. Important cost pressures intensified and could filter through to business costs for businesses in Singapore.

While domestic cost pressures were rising in tandem with economic recovery, this would pass through to consumer prices amidst strengthening private consumption expenditure.

Growth in the Singapore economy was projected to come in within the official 3 to 5 per cent forecast range. Although core inflation would ease in the latter half of this year, it was expected to keep above its historical average for some time.

Threats to Post-Pandemic Recovery

Dr Jade Vichyanond and Mr Justin Lim from AMRO discussed a number of risks that were on the horizon. Dr Vichyanond mentioned that one such concern was a retightening of containment measures due to the emergence of more virulent COVID strains. More dangerous variants of COVID could really pose a risk to economic recovery. Furthermore, mobility restrictions in China and geopolitical risks, in particular, the Russia-Ukraine conflict, would have a significant effect on inflation. This had been observed over the past several months.

In addition to food and energy, shipping costs had also risen due to logistic bottlenecks. There was also a risk to external demand, on which Singapore relies heavily. The outlook for Europe's growth became dimmer as a result. China's uncertain future when it came to mobility restrictions weighed on its growth and the country's demand for imports.

Singapore’s Ageing Population

Mr Lim also said that apart from the short-term challenges mentioned, Singapore has had to deal with long-term issues like an ageing population and climate change. Singapore’s fertility rate has declined very rapidly over the past decades. This was expected to go down even further in the coming decade. At the same time, life expectancy continued to increase. Putting this together, Singapore's old age dependency ratio was expected to continue increasing.

This figure stood at about 18 per cent as of 2020. Based on the world population data, this would go up to as high as 50 per cent by 2050. In this case, Singapore would be just behind Japan, Korea and Hong Kong. This would be an issue in terms of the fiscal spending needed to care for the elderly. It would also exacerbate Singapore’s shrinking workforce unless it was supported by very strong productivity growth or high immigration.

Discussion Session

China’s Economic Slowdown

A participant inquired if China’s economic slowdown was inevitable and whether that would have negative implications for Singapore and the region. To this, Mr Heng Koon How from UOB responded that the region was becoming more multi-dimensional. It was no longer the case that a slowdown in China would trigger a slowdown in the region as a whole. Nevertheless, China was still the place to be in the long run and one cannot ignore investing in the Asian giant. Once China opens up again, countries like Thailand and Singapore could expect more Chinese tourists, for instance. This would also stimulate investment opportunities in China again. At the moment, it was a case of waiting and seeing how the situation progresses.

Mr Manu Bhaskaran stressed that China was the biggest swing factor in the global economy. This extended to the Chinese government's ideological outlook, which influenced its economic policies. Mr Bhaskaran mainly alluded to China's strategic calculations following the Ukraine crisis and how policymakers were looking to shield it from strategic vulnerabilities such as the Western sanctions regime. This could compel China to look inwards and lessen its exposure to the global economy. If this happens, Singapore would be a loser as the city-state has benefited from close economic ties with Beijing. As a result, ASEAN's economic outlook is still very much influenced by the moves China makes.

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