The 30th Singapore Economic Roundtable

By Shazly Zain

The 30th Singapore Economic Roundtable (SER) was held on 26 November 2018. Conducted biannually by the Institute of Policy Studies (IPS), the SER brings 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 the Chatham House Rule and chaired by Manu Bhaskaran, Adjunct Senior Research Fellow at IPS. The proceedings from the 30th SER will be documented in detail in an IPS publication and released at a later date. A summary of the issues discussed is presented here.

MACROECONOMIC OVERVIEW: CAUTIOUS OUTLOOK FOR SINGAPORE

The global economic outlook has dampened amid a moderation in Asian trade and production. The presenters generally expect this trend to continue into 2019. The effects of US fiscal stimulus and resilient domestic demand will underpin growth in late 2018 and early 2019. Trade frictions between US and China have hurt domestic demand and trade flows in China and ASEAN.

In Singapore, GDP growth was 3.4 per cent from Q2 to Q3 in 2018. The Singapore economy has been resilient in the face of global headwinds, and the ongoing US-China trade frictions has had limited impact thus far.

The growth drivers within Singapore are likely to shift. Trade frictions have created uncertainty for trade-related clusters in Singapore. However, new sources of demand will provide some support for electronics, the largest trade-related industry in Singapore. Services including IT and finance will be a major driver of economic growth in Singapore, with digitalisation and innovation playing a key role in raising productivity. Sustained improvements within the labour market should boost demand for domestic-oriented clusters but the uptick will be uneven due to ongoing structural adjustments.

Rising Inflation

Inflation picked up in Q3 of 2018, largely reflecting the pass-through of higher oil prices. Increased oil prices in Q2 resulted in increased gas and electricity tariffs. Additionally, the pass-through of higher import and unit labour costs for services, to consumer prices could increase. Presenters expected modest but continuing pressures on inflation in the near term. Consumers might see an increase in levies and transportation costs.

Key Risk: China Slowing Momentum

Presenters felt that China was easing its macroeconomic policies amid concerns over growth and trade by lowering the reserve requirement ratio, cutting personal income taxes and promising more credit to private companies. Presenters were concerned that with more credit comes more leverage, and tax cuts would be swamped by the wealth effect from a bearish equity market. State-owned enterprises were retrenching workers, and inflation remained high at 4 per cent. With these concerns and a trade deficit, China should be tightening its macroeconomic policy.

Discussion

Singapore's resilient performance

Presenters noted that digital solutions and growth in IT industry were the main sources of Singapore's GDP growth. In Q2, there was a positive contribution in new economy segments, which was driven mainly by automation and digitalisation. A significant opportunity for growth in Singapore lies in the regional need for digitalisation.

Supply chain relocation

A participant raised a point about the potential relocation of supply chains in light of the US-China trade frictions. Presenters noted that the magnitude of the impact remained uncertain. Key questions remain on the impact of supply chain relocation on growth rates in the future. Presenters felt that companies would take time to relocate their supply chains and adjust to changes brought about by digitalisation. The displacement of jobs and new employment creation might be uncertain but it is necessary for human capital to work alongside increasing automation and Artificial Intelligence (AI). There was also concern about the impact of this on companies without the necessary creative workforce.

SPECIAL SESSION: THE NEW REGIME IN MALAYSIA AND ITS IMPACT ON SINGAPORE ECONOMY

The topic for this special session was chosen in light of Pakatan Harapan's victory in the 14th Malaysian General Election and the return of Dr Mahathir Mohamad as Malaysia's 7th Prime Minister. There would be new developments in Singapore-Malaysia ties and implications for Singapore's economy.

Singapore-Malaysia Economic Ties Remain Strong

Presenters noted that, during Prime Minister Mahathir's term as Malaysia's 4th Prime Minister, Singapore and Malaysia had strong trading ties, particularly with regard to electronics components and other intermediate goods. Malaysia was Singapore's second most important trading partner from 1981 till 2017, while Singapore ranked as Malaysia's second or third trading partner.

Interestingly, Singapore's trade in services with Malaysia had increased significantly especially since 2010 to approximately S$5.5 million in 2016. Key services included transportation, logistics and insurance services. Trade in services is expected to increase in the near future as Singapore embarks on its digitalisation journey.

Review on Infrastructure Projects

The Singapore-Kuala Lumpur High Speed Railway (HSR), if it proceeds, will see its construction delayed till 31 May 2020, with an expected operational date of 1 January 2031. SGD15 million will be paid out by Malaysia to Singapore for aborted costs.

Recently, the third Singapore-Johor link has been a pertinent topic. Presenters felt this was unlikely to gain traction within the Malaysian government as various parties within the ruling coalition and the Johor state government had expressed differing views on the project, ranging from calls for a crooked or curved bridge to an outright rejection of the idea.

Pakatan Harapan's Focus on Domestic Issues

Presenters felt that members of the new administration were still adjusting from an opposition role to a leadership one. The administration was primarily focused on domestic issues, particularly the fiscal health of Malaysia. Malaysia currently has debt liabilities totalling approximately RM1,065 million. 1MDB remains a major issue. Hence, many decisions made by the government revolved around reducing national debt and excessive spending commitments, and tackling complex bilateral issues was not a major priority.

Discussion

The Singapore-Malaysia water agreement

A participant enquired on the impact of the price of water being sold to Singapore. Presenters noted that Singapore had already made huge investments over the past few years to increase its water production capacity. Singapore may not be as negatively affected by the uncertainty of the water agreement with Malaysia as before given that Singapore has steadily stepped up its domestic production of water over the years.

Mahathir leaning towards Japan

A participant pointed out that PM Mahathir appeared to be building stronger ties with Japan as a counterbalance towards China. Presenters noted that Malaysia was adopting a multi-partner approach. Presenters also posited that there might be joint Sino-Japanese bids for projects in Malaysia, citing the recent joint bid by Chinese and Japanese firms to build the railway link for various airports in Bangkok.

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