

## The Thirty-First Singapore Economic Roundtable

By Shazly Zain

The Institute of Policy Studies (IPS) organised the thirty-first Singapore Economic Roundtable (SER) on 28 May 2019. A biannual event by the institute's Governance and Economy department, it brought together over 60 participants including economists, academics, business leaders and policymakers to assess economic conditions and their impact on Singapore's economy.

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

### **MACROECONOMIC OVERVIEW: WEAKER GROWTH IN SINGAPORE**

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Slower global growth was expected amid weaker trade flows and elevated uncertainty. Presenters generally expected this trend to continue into the latter half of 2019. Policy responded to the weaker outlook with a dovish shift in monetary policy lending to easier financial conditions in the G3 countries. China also adopted fiscal, monetary and financial stimuli in light of its slowing economy. South Korea, Taiwan and the ASEAN-4 countries will continue to face external headwinds in 2019 due to the ongoing US-China trade war.

In Singapore, GDP growth was 3.2 per cent year-on-year in 2018 compared to 2017. In Q4 2018, the economy expanded by 1.9 per cent year-on-year, down from 2.4 per cent in Q3. Trade-related clusters started to weaken but domestic segments of the economy remained resilient. While domestic fundamentals and policies remained solid, they could be affected in a deeper downturn. Fiscal policy remained neutral but should be used in response to an economic downturn, said presenters.

Modern services emerged as the main driver of growth, while the contribution of trade-related clusters eased further on the back of a contraction in IT and electronics-related activities. Domestic-oriented sectors remained sluggish, though there was some improvement in the construction and food & beverage segments. Trade-related clusters saw slower growth in its key trading partners. Additionally, the global electronics cycle was expected to pose a further drag on electronics-related activities in Singapore due to global oversupply.

## Easing Inflation rates

Inflation eased in Q1 2019, mainly due to a small increase in the cost of electricity and gas. The adoption of the Open Electricity Market saw electricity tariff rates decline by 20 to 30 per cent. MAS Core inflation was expected to remain slightly under 2 per cent in 2019. External sources of inflation were benign while domestic cost pressures remained in check. Core inflation was forecast at 1 to 2 per cent for 2019.



*The ongoing US-China trade war dominated discussions in this year's SER.*

### Key Risk: US-China Trade War

Presenters felt overwhelmingly that the war poses great risk to the global economy. The potential peak impacts on Real GDP of several Asian countries were expected to be negative. However, the trade war might inadvertently benefit countries such as Indonesia, India, Thailand and Malaysia, due to trade diversion effects.

Closing the US-China bilateral trade deficit via a negotiated managed trade system was seen as a challenge. In a potential trade agreement, China might be required to buy more US goods and services, diverting trade away from other countries. Additionally, China would need to pay more for its imports as US goods were likely to be more expensive than those sourced elsewhere. Local Chinese demand for imports would likely decline, seeing slower growths in China and other countries affected by the trade diversion. Many of the other countries that

exported to China were US allies, and would be hit by any managed trade system, with effects felt in a multitude of sectors including electronics, machinery and vehicles.

### **Key Risk: Singapore Labour Market Challenges**

Labour market challenges differed between skill levels. For lower-skilled workers, vulnerabilities stemmed from low wages. Most non-PMETs earned lower wages than PMETs, earning up to a monthly salary of S\$4,000 while PMETs, between S\$2,000 to S\$7,000.

For skilled PMETs, vulnerabilities were likely to lie in skills mismatch. There was a decline in the number of PMETs who were retrenched and able to find new jobs — from an all-time high of 85 per cent of PMETs in 2006 to just 60 per cent in 2018. Workers in clerical, sales and services roles also risked facing issues of skills mismatch. Workers in production, transportation, cleaning and who were labourers, have been increasingly able to find jobs post-retrenchment.

### **SPECIAL SESSION: Climate Change and its Impact on Singapore's Economy**

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With sea levels projected to rise by up to one metre and daily mean temperatures increasing by 1.4 to 4.6 degrees Celsius in the next 50 to 100 years, the impact of climate change on life worldwide cannot be underestimated. This includes financial losses from physical risks associated with climate change, and broader effects on economic prospects, geopolitics, potential climate migrants, energy and food security.

#### **Singapore's Climate Action**

The power and industry sector formed the bulk of Singapore's emissions at approximately 60 per cent of total emissions. Singapore's greenhouse gas emissions for 2014 were estimated to be 50.9 metric tonnes. Singapore has begun implementing the 2030 emissions target of reducing emissions intensity (emissions per \$GDP generated) by 36 per cent below 2005 levels by 2030.

To achieve this, Singapore will implement a carbon tax of S\$5 per metric ton of carbon dioxide emissions between 2019 and 2023, to be reviewed thereafter. Revenue from the carbon tax will fund environmentally friendlier projects such as increasing solar panel deployments, and contribute to increasing energy efficiency from 0.8 per cent per annum to 1 to 2 per cent, increasing public transport share from 67 to 75 per cent by 2030, doubling the rail network to 360 km, and achieving a Green Mark Certification for 80 per cent of buildings in Singapore.

#### **Accounting for Environmental Damage in Economic Growth Models**

With climate change becoming a reality, economic models used in national accounting need to be updated, taking into account environmental damage and its relation to economic growth.

Participants discussed how most countries exhibiting stable economic growth would have actually experienced diminished economic performance if environmental damage were considered. A study examining the real impact of environmental damage from 1970 to 2010 found that while Australia's GDP rose by 3 per cent per annum, environmental stock depletion grew by 5% per annum. Meanwhile South Korea's GDP rose by 7.4 per cent per annum but

saw environmental stock depletion growing by 9 per cent per annum. Countries that import crude oil such as Singapore may inadvertently be exporting environmental damage to the oil-exporting countries.

Suggestions to limit the effects of environmental stock depletion included promoting the utilisation of environmental technologies such as renewable energy sources; promoting a circular economy or closed-production system, which has gained popularity in Scandinavian countries; fiscal measures such as a resource rent tax; or monetary measures such as differential interest rates. Central banks should note that as inflation occurs, environmental stock depletion could be a driver of inflation.

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