Institute of Policy Studies

The 32nd Singapore Economic Roundtable

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At the 32nd Singapore Economic Roundtable (SER) held on 13 November 2019, distinguished speakers talked about the global economic slowdown and its various impacts, and in addition, examined the changing global supply chains at the Special Session. Conducted biannually by the Institute of Policy Studies' (IPS') Governance and Economy research cluster, this edition brought together over 60 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 32nd SER 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: A Synchronous Slowdown Worldwide

Global growth is expected to slow before potentially stabilising in 2020 amid elevated uncertainty. Leading indicators of exports from the Eurozone show declines in manufacturing while US labour market indicators point towards slowing hiring rates and job openings after a strong performance in early 2019. China's policy measures have also become more targeted and measured than in the past. Due to the ongoing trade war, Chinese exports to the US have declined significantly in the second half of 2019 by 15%. China's consolidated fiscal deficit has been projected to 6% of China's GDP in 2019, from 3.5% in 2018.

The Singapore economy saw a downshift in growth momentum in 2019. This year's forecasts indicate a 0 to 1% GDP growth with improvements expected in 2020. Trade-related clusters are facing pressures as key trading partners are facing slowdowns as well. The ongoing reconfigurations of regional trade flows and supply chains pose an added source of uncertainty. Modern services clusters have seen a positive uptick as the ongoing digital transformation efforts in Singapore will drive the cluster's growth. There has also been a strong expansion in electronic transactions, benefitting payment network operators. The domestic-oriented cluster has also seen growth, underpinned by the recovery in the construction sector. While retail remains sluggish, growth in essential services remain resilient.

Subdued Core Inflation

Hiring sentiments in Singapore have turned cautious but employers are retaining their existing workers. Vacancy rates have fallen in the latter half of 2019 with a tightening of the labour market relative to historical averages. Resident wage growth has fallen from 3.5% in late 2018 to 2.8% in early 2019 on a year-on-year basis. The 10-year average resident wage growth between 2009 and 2019 was 3.2%. Core inflation also fell in Q3 of 2019. Inflationary pressures are expected to be muted in the near term.

Monetary Policy in Singapore

Participants enquired about Singapore's approach to monetary policy. There was some debate over the merits of a more insurance-based approach to monetary policy as opposed to the traditional approach of conditioning monetary policy on forecasts of GDP growth and expected inflation. Taking insurance was defined as taking pre-emptive measures to account for one of the downside risks, which some participants argued were proliferating in ways that could not be easily predicted. These participants pointed to the Federal Reserve in the US becoming more concerned about such downside risks as well as the fear that inflationary expectations might become entrenched — and thus adopting a more pre-emptive monetary policy approach.

Singapore was noted to have more fiscal room and greater flexibility in its monetary policy, which is based on a baseline scenario while risks were seen as potential deviations from that scenario. Most central banks worldwide adopt this approach. Concerns over inflation expectations are taken into account using the baseline scenario or through discreet alternative scenarios. Singapore uses a multitude of indicators and while inflation expectations have declined, they are not at the levels seen by other advanced economies.

Key Risk: Mild Global Recession

Global real GDP based on the Nowcast model is expected to decline to approximately 2.5% on a quarter-to-quarter basis going into 2020. The impact of past tariff increases on the US economy has yet to be felt in full. The initial 25% tariffs implemented in June–August 2018 has had a -0.2% quarter-on-quarter basis impact on US GDP growth in Q2 2019. Later tariffs have also begun showing signs of a negative lagged effect on the US economy. It is expected that the negative impacts will be seen in late 2020. This is in spite of the proposed trade deal which the US and China are predicted to sign in December 2019.

SPECIAL SESSION: Changing Global Supply Chains

The Special Session aims to examine the changing global supply and value production chains in relation to Singapore as a trading hub. For countries such as Singapore, changes in the global supply chain have enormous impacts on the economy. Both challenges and opportunities will present themselves as Singapore continues its path up the value chain. It is therefore important to ensure that businesses in Singapore are aware of these changes and the potential benefits they can gain by adapting well and leveraging on new opportunities that are likely to emerge.

Supply Chain 4.0

Global connectivity remains high today despite some backlash against globalisation. Globalisation is increasingly being defined by the flows of data and information. Digital infrastructure is becoming increasingly more critical than physical logistics facilities. Robust digital infrastructure also reduces the effort firms in developing countries need to go global. In an intelligence survey that the presenters shared, the proportion of flows (goods, services, and people) crossing had increased to over 150%. However, the breadth of connectivity has remained constant, implying that much trade remains intra-regional.

Issues on customer-demand planning, cost, complexity, connectivity (physical or digital), climate change and carbonisation are still key concerns for the global supply chain. Specifically for climate change and carbonisation, the materials and goods flow along supply chains carry carbon footprints, which will contribute to climate change. Resilience of the global supply chain is also adversely affected by climate change. This increases volatility in the supply network, affecting demand planning.

The new value chains of tomorrow can be characterised as instrumented with the use of real-time data collecting tools such as RFID tags and sensors, interconnected between various stakeholders forming the supply chain and intelligent with the use of predictive analysis. New concepts such as digitalisation and digitisation have facilitated the growth of ecommerce globally. Businesses can now directly connect with customers and other businesses, suggesting the lack of a need for a distributor traditionally meant to connect buyers and sellers.

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