

The 40th Singapore Economic Roundtable

By Serene Ho

The Governance & Economy Department of the Institute of Policy Studies (IPS) held the 40th Singapore Economic Roundtable (SER) on 17 May 2024. The event had a total of 40 participants including economists, academics, business leaders and policymakers from the public and private sectors.

The 40th SER was divided into two segments. The first focused on the macro-economic outlook for Singapore and its implications for policy. It featured Ms Sherilyn Chew, Senior Economist, Economic Surveillance and Forecasting Department Economy Policy Group, Monetary Authority of Singapore; Mr Khoon Goh, Head, Asia Research, ANZ; and Ms Grace Lim, Senior ASEAN Economist, UBS. The second was a special session featuring Mr Carl Rajoo, Director, Macro Strategy, Temasek International Pte Ltd; Professor Mark Goh, Director (Industry Research), The Logistics Institute – Asia Pacific; and Dr Sharad Parashar, Partner, Boston Consulting Group.

Both sessions were moderated by Mr Manu Bhaskaran, Adjunct Senior Research Fellow at IPS, and included discussions under Chatham House Rules.

The complete proceedings from the 40th SER will be documented in an IPS publication and released later. A summary of the issues discussed is presented here.

SESSION ONE: MACRO-ECONOMIC OUTLOOK FOR SINGAPORE AND IMPLICATIONS FOR POLICY

Summary of Recent Developments in the Global Economy

In the last quarter of 2023, global economic growth moderated as the outperformance of the US was offset by weaker growth across several ASEAN countries. In part of the revival in manufacturing activities, recent high frequency data signalled that resilience is persisting into 2024, and that global economic growth is poised for steady expansion for the rest of 2024.

With the tightening impact of past policy and less supportive fiscal policy in most economies, which lead to a continued restrained effect on growth, the global economy is expected to expand by 3 per cent in 2024, slightly below the 3.3 per cent in the previous year. Despite that, the global economy is likely to be gradually more balanced across the regions over the year.

Although global inflation should continue to moderate over 2024, the path is likely to remain uneven as key disinflationary impulses from 2023 fade. Core goods prices are unlikely to decline by the same extent as the earlier unwinding of global supply chain dislocations have

largely been completed. The balance of risks continues to be tilted towards persistent inflation, especially in the Asian Economies.

Overview of the Singapore Economy and Wage Price Dynamics

Overall, Singapore's GDP growth is projected to come in at 1 to 3 per cent in 2024, following the 1.1 per cent growth in 2023 with the main clusters of the economy converging towards their pre-pandemic growth rates. Trade-related and modern services clusters recorded sequential contraction in the first quarter (Q1) after growing in the fourth quarter (Q4), while domestic-oriented and travel-related clusters expanded in Q1, reversing the declines in the previous quarters.

Broadly, there were two opposing impulses at play during Q1 — while the manufacturing sector experienced a pullback from electronics-led research late last year, tourism-related industries received some boost from an unprecedented line-up of large-scale concerts in Q1 this year. These two factors influencing the Q1 outcome outcomes are likely temporary and should dissipate in the coming quarters.

For the rest of the year, the Singapore economy will likely be driven by the broad alignment of the global macroeconomic tech and interest rate cycles. Manufacturing and trade activity should continue to benefit from the ongoing recovery in the global electronics industry.

Developments in the Labour Markets and Consumer Prices

Recent employment outlook surveys suggest that hiring in the overall economy should remain modest in the near term. However, the anticipated pickup in GDP growth in the second half of the year should boost labour demand and provide some support to drop growth towards the end of 2024. For the full year, total employment is expected to expand at a more moderate pace compared to the exceptionally strong growth over the past two years, as the overall workforce has caught up to its pre-COVID level.

For 2024 as a whole, both core and headline inflation are projected to average 2.5 to 3.5 per cent. Excluding the transitory effects of the increase in GST, core and headline inflation are expected to come in at 1.5 to 2.5 per cent. However, risks to the inflation outlook remain. Inflation could turn out stronger than anticipated due to shocks to supply as a result of geopolitical conflicts as well as a re-acceleration in wage growth from stronger than expected labour demand. Conversely, an unexpected weakening in the global economy could induce a greater easing of cost and price pressures. Core inflation is expected to stay around 3 per cent in the near term before falling more meaningfully in Q4 and into 2025.

Macroeconomic Policy

In January and April this year, the MAS maintained the prevailing rate of appreciation of the single-year policy ban, with no change to the width of the ban or the level at which it was centred. As inflation is expected to stay elevated in the immediate quarters ahead, the prevailing rate of appreciation of the policy ban is needed to keep a restraining effect on imported inflation and domestic cost pressures. The current appreciation path of the same near policy ban also remains sufficient for ensuring medium term price stability, barring shocks that displace growth and inflation onto a fundamentally different trajectory.

US and China Economies and Their Impact on Asia

The US economy is going strong due to strong fiscal policy and investment in semiconductors and AI-related spending. The Chinese economy provides a more positive outlook as it is currently undergoing a cyclical upswing. The rest of Asia has a promising export outlook, and part of this upswing is also driven by the semiconductor cycle.

There are massive changes to Asia's trade patterns as a result of the geopolitical tensions — with China selling less directly to the US, China is selling more to the countries that have seen their exports to the US increase. For Singapore, a stronger upswing is predicted for the rest of the year.

The Tech Cycle and Labour Market

The tech cycle recovery has been quite uneven in terms of product verticals and depending on each economy's exposure to these elements, the impact on their growth would be slightly different. This recovery would account for the unevenness in the Singapore's export recovery so far.

It is also projected that Singapore's labour market is cooling down, and vacancy rates are no longer high. This is likely due to a sharp increase in foreign labour force in the past year, which alleviated some of the supply constraints associated with labour.

Discussion Session

Vulnerabilities in a turbulent world

Questions posed during the discussion revolved around the vulnerabilities that exist in ASEAN and Singapore against what is likely going to be a very turbulent world.

The key point in the response was that there were countervailing forces that would lend a degree of resilience — economic agents had adjusted their behaviour to reduce vulnerabilities such as excessive leverage, such that there were few excesses or imbalances in the region which could be crystallised. Moreover, the tech cycle was likely to continue recovering lending resilience to economic growth. The credit cycle in the region could also revive with the Federal Reserve and other major central banks being likely to cut rates.

Singapore and ASEAN amidst straining US-China relations

There were participants were curious about the strength of the US dollar, the potential spill over effects of deteriorating US-China relations and tariff wars. Questions regarding the net impact of strained US-China relations on trade effects and how to deal with risks in investor positions were presented to the panellists.

Some responses highlighted possible longer-term inflationary effects on the region due to changes and disruptions in the chain of production which would likely incur additional frictions. However, other responses discussed how China has become increasingly involved in seeking new export markets in the ASEAN region to export to the US, which could lead to potential disinflationary effects from expansion of capacity into this region.

Singapore and ASEAN amidst global changes

Questions regarding potential global changes and how it will affect Singapore and the region were posed to the panellists. What does the impending US Presidential Election mean for a small, highly open economy dependent on globalisation like Singapore's? Can the current resilience of the ASEAN region be sustained?

The response was that with Singapore's dependence on imports, the city-state has no choice but to ensure that the Singapore dollar remains strong. One of the things Singapore will have to do to remain competitive is to start prioritising the industries that will help the country be ahead of others. It is also imperative that Singapore remains plugged into the region and maintain strong connectivity.

SESSION TWO: SPECIAL SESSION: SUPPLY CHAIN RECONFIGURATION IN ASIA AND ITS IMPLICATIONS FOR SINGAPORE

Global Economic Developments and Supply Chain Implications

Despite the geopolitical tensions that we have seen since 2018, effectively, China continues to be a very dominant force in global supply chains. Moreover, since the Russia-Ukraine invasion, it is believed that the risks associated with that dominance is becoming clearer, starting with a real shift away from reliance on China. Consequently, a more fundamental degree of de-risking that is underway; hence, there is a need to understand what the risks and opportunities are, given that Singapore is a single-based investor. However, with bottom-up driven companies making decisions on their risk profile and their diversification risk with regards to production, it is very difficult to specify the risk.

Supply chain reorientation has already occurred, and it is particularly exemplified by Vietnam. For Singapore, the city-state is shifting from a just-in-time supply chain to a just-in-case type of supply chain. Apart from the reconfiguration of existing supply chains, new supply chains have also emerged. Although Singapore still has some advantages in the context of ASEAN, this advantage could potentially disappear with a tussle over supremacy in the region between Singapore's neighbours in the North and South. Hence, there is a need to work towards achieving and providing the perception of political stability in order to attract more investors to Singapore.

Although the immediate implications for Singapore are a little more negative in the near term due to changes in water services and wholesale trade, Singapore has been an important source of capital for the ASEAN region and India. If both ASEAN and India were to transform, it may lead to positive changes to parts of the world where Singapore has an even deeper linkage, providing Singapore with interesting opportunities.

Human Capital and Job Stability

Currently, with shifting career landscapes and the emergence of generative AI, Singapore's biggest struggle would be how to train the right people for the next set of jobs. Previously, universities prepared students for the next 30 years in the workforce; however, with the advancement of AI, training the next generation of workers would prove to be difficult as skills that were imparted to them today may become obsolete in a few years' time. Despite this

difficulty, there is still a demand for people who are armed with machine learning or artificial intelligence skills.

Discussion Session

China's growth and challenges

Participants were curious about the views on China moving up the value chain, and if this action was in response to the tariffs imposed on China. With that, what implications would this have on the world and the region? Questions about what the conditions that China must meet to move up the value chain more decisively were also posed to the panellists.

Responses highlighted that many would agree that China was moving up the value chain and that China, like many other countries, was deliberately working towards that. However, it was also noted that it might take China one to two decades to successfully do so. Another response underlined that China has been very capable to value add to sectors such as construction but there exist other challenges that China needs to address. Notwithstanding that it has been an extremely strong force the past few years, China's current challenges in the property sector, external demands, geopolitics as well as its own structural issues, need to be properly addressed for further growth.

Economic competition in ASEAN

Questions regarding how China's advancement up the value chain and the Chinese competition which follows would impact ASEAN countries negatively, especially the ASEAN countries whose industrial structure overlaps with China's.

The response to this question elucidated that competition over the long run is likely going to be a positive thing. If the market is truly growing as big as projected, it would probably be big enough for Singapore to benefit from it and be pushed in the right direction.

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If you have comments or feedback, please email ips.update@nus.edu.sg