41st Singapore Economic Roundtable: Report

By Serene Ho

The Governance & Economy Department of the Institute of Policy Studies (IPS) held the 41st Singapore Economic Roundtable (SER) on 14 November 2024. The event had a total of 54 participants including economists, academics, business leaders and policymakers from the public and private sectors.

The 41st SER was divided into two segments.

The first focused on the macro-economic outlook for Singapore and its implications for policy as well as the global economic outlook after the results of the November 2024 US presidential election. It featured Ms Neha Varma, Lead Economist, Economic Policy Group, Monetary Authority of Singapore; Ms Radhika Rao, Executive Director and Senior Economist, DBS Bank Ltd; and Mr Alvin Liew, Senior Economist, United Overseas Bank Limited.

The second segment was a special session on Singapore and Malaysia Economic Connectivity featuring Dr Francis Hutchinson, Senior Fellow, Co-ordinator of the Malaysia Studies Programme, ISEAS-Yusof Ishak Institute; Mr Raymond Yee, Vice President, Customs and Regulatory Affairs, DHL Express; and Dr Chua Hak Bin, Macro Research, Maybank Research Pte Ltd.

Both sessions were moderated by Mr Manu Bhaskaran, Adjunct Senior Research Fellow at IPS and involved two discussion sessions that were held under Chatham House Rules.

The complete proceedings from the 41st 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

The International Economy and the Singapore Economy

The global economic growth has remained resilient while global disinflation made further progress. A steady expansion of global gross domestic product (GDP) is expected to continue, though risks remain elevated. The overall post-pandemic supply-demand dynamics have largely stabilised in major economies. Demand is expected to continue growing, driven by fiscal spending and investment, with further support anticipated from the easing of global monetary policy.

Singapore's economic growth has picked up strongly in the third quarter (Q3) in 2024, after a relatively tepid first half (H1) of the fiscal year. Generally favourable economic conditions and an upswing in the tech cycle are expected to support growth in 2025. Furthermore, Singapore's import costs have decreased due to lower global inflation, a decline in global food and energy prices, and the significant appreciation of the Singapore dollar. Meanwhile, unit labour cost growth has eased alongside slowing wage growth and improved productivity, contributing to a more stable service sector.

Labour Market and Inflation

It has been observed that tightness in the labour market has continued to ease in the second quarter (Q2) due to a decrease in demand for workers. In fact, employment is projected to strengthen across sectors such as financial services, information and communication, and tourism-related industries. Meanwhile, nominal wage growth is expected to gradually stabilise as the labour market reaches a balanced state.

The decline in inflation in Q3 is observed to be broad-based amid easing cost pressures, and core inflation is expected to decline by approximately 2 per cent by the end of year. Singapore's import costs have decreased due to lower global inflation, a decline in global food and energy prices, and the significant appreciation of the Singapore dollar. Meanwhile, unit labour cost growth has eased alongside slowing wage growth and improved productivity, contributing to a more stable service sector.

US Elections Results and Key Implications

Donald Trump's victory in the November 2024 US presidential election — coupled with Republican control of both the Senate and the House — positions his administration to implement its policy agenda with relative ease. Key areas of focus include: tax, trade, immigration, the Federal Reserve's (Fed) independence, green policies, and foreign policies. It is notable that Trump's policies are largely inflationary with a mixed impact on economic growth.

Trump's Trade Policy and Its Impact on Asia and ASEAN

While it remains to be seen how Trump's policies will unfold, they are likely to have substantial implications for the region. There is a strong sentiment that Trump's proposed trade policies could impact Asia significantly, particularly given his plans to impose a 60 per cent tariff on Chinese products and a universal tariff of 10 to 20 per cent on all imports.

The "China+1"" strategy, increasingly adopted by investors from China and other regions (notably North Asia and the West), is driving a shift in productive capacity towards ASEAN. While ASEAN may experience limited direct effects from a potential Trump 2.0 presidency, it is unlikely to be immune from its broader impacts. Projections suggest that ASEAN's growth could be impeded by a drop in China's growth.

Discussion Session

Can Technology Sector Bolster Capital Spending Amid Heightened Uncertainties?

The technology sector has shown promising potential to bolster capital spending, even amid significant uncertainties. While private sector investments are cautious due to limited demand visibility, many governments are stepping in to fill this gap, directing funds towards infrastructure and offering incentives to attract foreign capital. For instance, India is positioning itself as a key player in semiconductor assembly and outsourcing, aiming to capture opportunities from global supply chain shifts. Similarly, Taiwan has implemented substantial fiscal and state-level incentives to encourage capital investments in technology.

Despite market volatility, the technology sector remains resilient, with strong growth in areas like AI, crypto and high-end tech drawing new rounds of investment. This sustained interest is expected to support the tech cycle well into the first half of 2025. While US developments add an element of uncertainty, the country remains a vital source of capital and innovation. Increased regional competition further amplifies the dynamic, as countries strive to attract tech investments, fostering a balance of collaboration and competition in strengthening regional technology capabilities. However, it is important to avoid over-reliance on technology, as artificial intelligence and other tech sectors, while popular, still have significant room for growth and still has a lot more to be explored.

Potential Benefits from Upcoming Trump Presidency?

Tax cuts could be a possible benefit of the upcoming Trump presidency. While it would impact the fiscal situation, it may create a more favourable environment for investors. Moreover, if tariffs and trade negotiations were to succeed, more companies would be encouraged to return operations to the US, which could promote reshoring and strengthening in domestic industries.

Another potential positive from Trump's presidency is the impetus for supply chain relocation, which has reshaped global manufacturing over the past 8–9 years. Trump's policies highlighted vulnerabilities in supply chains and prompted companies to reconsider their reliance on specific regions, setting the stage for ongoing diversification efforts. This shift has been further supported by policies like Biden's Inflation Reduction Act, which offers clear incentives for domestic production, though its continuity remains uncertain. The combined effect of these policies has provided a framework that encourages investment in more resilient, diversified supply chains.

In addition, the possibility of a reduced focus on green policies in Trump's presidency could, in the short term, benefit sectors like oil and gas by easing regulatory hurdles and boosting growth. However, this approach raises concerns about long-term externalities; in particular, the fight against climate change. A temporary relax in environmental standards could delay corporate climate goals significantly, potentially setting back global climate efforts by a considerable margin. These mixed impacts highlight both immediate opportunities and future challenges across various sectors.

SESSION TWO: SPECIAL SESSION: SINGAPORE AND MALAYSIA ECONOMIC CONNECTIVITY

The Johor-Singapore Special Economic Zone (JSSEZ)

The JSSEZ holds great potential for growth and collaboration for both Johor and Singapore, especially with Johor positioned to provide both lower-end and higher-end labour to complement Singapore's needs. For a century, Johor has evolved as a site for complementary production, transitioning from agriculture to manufacturing and now, services. Its strengths lie in leveraging its abundant land and labour relative to Singapore, attracting investment flows regardless of policies.

However, there are certain challenges that needs to be addressed. For instance, there are some sectors, such as the finance and creative industries, that are less well-suited to Johor's current strengths. To maximise the potential of the JSSEZ, authorities would need to focus on fostering innovative potential rather than focusing solely on large-scale investments.

The Rapid Transit System (RTS), currently under construction, is expected to be a game-changer, as well as a form of relief for the pent-up demand for day trips and cross-border living. The rapidly advancing High Speed Rail (HSR) on the Malaysian side, will further enhance connectivity and economic integration. These developments underscore Johor's role as a dynamic partner in the JSSEZ, provided strategic investments are made to diversify its economic capabilities.

Can the JSSEZ Enhance Logistical Efficiencies?

Currently, cargo movements between Johor and Singapore face several logistical inefficiencies that hinder seamless trade. Long travel times for trucks, delays in customs and immigration clearance, and missed export cut-offs for flights result in losses in both business days and revenues. Additionally, customs processing in both countries demands significant time and resources — a challenge further exacerbated by the duplication of data in declarations. These inefficiencies underscore the need for streamlined processes to enhance trade flow and support economic growth in the region, which can hopefully be seen in the upcoming JSSEZ.

To ensure seamless and efficient logistics within the SEZ, several measures were proposed. A single-window system with one-time submission for transshipments and bonded transfers, supported by Smart Locks and joint controls to both exporter and importer premises, could streamline operations. Simplified customs procedures for road transport, aligned with air transport standards, and expedited truck lanes for bonded movements at border checkpoints could reduce delays and save significant time, potentially by 300–900 hours per month. Additionally, leveraging advanced technology could enhance efficiency, minimise risks, and improve time-to-market, ultimately fostering faster trade and supporting economic growth in the SEZ.

Potential Advantages and Challenges of the JSSEZ

Some possible advantages that the JSSEZ that were discussed were its potential in capturing supply chain shifts as well as the lower operating and rental costs in Johor for businesses, particularly those in the manufacturing sector.

As China's share of US imports declined, that of ASEAN's share grew from 7.3 per cent in 2018 to 10 per cent in 2023. Singapore and Malaysia benefitted from increased exports and FDI, especially in tech industries. Johor also emerged as the fifth most popular investment destination in Malaysia during the first half of 2024, with foreign investments surpassing domestic ones. Its cost advantages and resources complement Singapore's expertise in finance, logistics, and advanced manufacturing.

Additionally, Johor offers significantly lower operating and rental costs compared to Singapore, which is driven by a favourable exchange rate and competitive pricing. In Iskandar, factory rents are 65 per cent lower, housing costs 85 per cent less, and office rents are 75 per cent cheaper than in Singapore. Salaries for manufacturing roles in Johor are 80 per cent lower and hospitality wages 40 per cent less. Electricity tariffs in Johor are also 60 per cent lower for businesses and 80 per cent lower for households. Rising business costs in Singapore have increased the need for a hinterland, positioning Johor as an attractive alternative for cost-conscious businesses.

While the JSSEZ can be advantageous, it could also face potential challenges. For instance, current incentives could be too heavily focused on Forest City rather than the broader SEZ. There also exists the potential impact of the global minimum tax rules on low-tax benefits. Furthermore, ageing infrastructure, specifically the electricity grid and water supply, could deter investments, particularly in resource-intensive sectors like data centres.

Political uncertainties that could arise with the changes in government may affect ongoing agreements or concessions and pose additional risks, a concern best exemplified by the previous delays in the Singapore-Kuala Lumpur HSR project. Global trade dynamics, like the upcoming Trump presidency that could lead to high tariffs on China and conduit countries, could possibly undermine FDI and supply chain shifts. Furthermore, labour shortages and unbalanced labour flows, favouring Singapore over Johor, remain critical hurdles.

Discussion Session

Evaluating Potential Risks in JSSEZ

While the JSSEZ presents promising benefits for both sides, there exists several challenges remain unaddressed.

On benefits, it was reiterated that the JSSEZ would offer a strategic advantage for manufacturing companies, as it provides a closer proximity to labour forces and, thereby, greater operational efficiency.

However, not every sector would be able to experience a boost in productivity. With the high-frequency RTS service expected to facilitate cross-border commuting, Johor workers may find it favourable for them to find employment in Singapore instead of Malaysia. For Singaporeans, the strong Singapore dollar makes spending in Malaysia more appealing, which could reduce domestic consumption as they find their money stretches further across the border. Moreover, Singaporeans already spend significantly abroad, and the ease of travel may further increase cross-border shopping — though shopping centres in Malaysia might face acute labour shortages.

Will JSSEZ Overcome Challenges Faced by Iskandar?

In addressing why the JSSEZ might succeed where Iskandar faced challenges, particularly with strict border controls, there is a sense of cautious optimism. While it is unclear whether the outcomes will be significantly different this time, there are reasons to believe that lessons learned from the past could shape a more favourable outcome for the JSSEZ.

This time, there are specific measures, such as the RTS Link, to improve cross-border movement for workers and consumers, addressing a core issue that limited Iskandar's success. Simplified processes and policies within the JSSEZ also suggest a more streamlined approach that could mitigate some of the bureaucratic hurdles faced in the past.

On the logistical front, there is strong support for the idea of a third bridge to be built between both borders that is dedicated to heavy-duty vehicles, complemented by a more streamlined customs process. This infrastructure could significantly enhance the efficiency of goods transportation across borders, reducing delays and easing congestion for commercial traffic, which is vital for the success of the JSSEZ.

However, uncertainty remains, especially with the potential for political changes in either Malaysia or Singapore that could shift priorities. While both governments appear committed to the JSSEZ, any changes in leadership or policy could impact its continuity or effectiveness. Despite these risks, the initiative has clear advantages that could set it apart from past efforts if sustained political support and practical improvements in cross-border regulations continue.

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