The 38th Singapore Economic Roundtable

By R Avinash

The Governance & Economy Department of the Institute of Policy Studies (IPS) held the 38th Singapore Economic Roundtable (SER) on 11 May 2023. The event had a total of 45 participants including economists, academics, business leaders and policymakers from the public and private sectors.

The 38th SER was divided into two sessions. The first focused on the macro-economic outlook and its implications for monetary and fiscal policies. If featured Mr Jensen Tan, Senior Economist of the Economic Policy Group at the Monetary Authority of Singapore (MAS); Dr Jade Vichyanond, Economist at the ASEAN+3 Macroeconomic Research Office (AMRO); and Mr Nicholas Chia, Macro Strategist at Standard Chartered Bank.

The second, held under Chatham House Rule, was a special session on the “Impact of the Anwar Government on Singapore-Malaysia Ties”. It involved Dr Ong Kian Ming, Director of the Philosophy & Economics Programme at Taylor’s University, and Dr Francis Hutchinson, Senior Fellow at the ISEAS – Yusof Ishak Institute.

Both sessions were moderated by Mr Manu Bhaskaran, Adjunct Senior Research Fellow at IPS.

The complete proceedings from the 38th 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

Global Economic Developments

Mr Jensen Tan of MAS noted that early data for the first quarter (Q1) suggested that the global economy exhibited some resilience following the weak end to 2022. A confluence of factors including a peaking of global inflation, above-trend growth in employment and nominal wages, as well as China’s reopening, had contributed to an improvement in consumer and business sentiments across most regions.

This had in turn provided support for services activities. Accordingly, the latest global composite Purchasing Manager’s Index (PMI) reading rose to a 10-month high in April. However, this was mainly led by an increase in the services sub index.

The Singapore Economy

The Singapore economy expanded marginally by 0.1 per cent year-on-year in Q1 2023, slowing from 2.1 per cent in the fourth quarter (Q4) 2022. On a sequential seasonally-adjusted basis, GDP contracted by 0.7 per cent in Q1.

Growth was weighed down by the trade-related cluster. The global manufacturing and trade slowdown, especially in electronics that started in late 2022, has intensified at the beginning of 2023. In comparison, the domestic-oriented cluster, which is less exposed to export demand, fared better. Growth in the travel-related sectors also remained firm, benefiting from the recovery in tourism demand.

The broadening downturn in the global electronics industry is expected to weigh on Singapore's trade-related cluster at least until the middle of 2023. Chip makers globally have seen a sharp spike in chip inventory relative to sales in recent months, with trade exports from chip-making economies, including Singapore, falling amid weaker demand.

Risks and Vulnerabilities

Dr Jade Vichyanond of AMRO noted that one of the key risks facing Singapore is a gloomier outlook for global growth. Naturally, this is driven by the impact of higher policy rates in the major global economies, which weigh heavily on external demand and affect Singapore's manufacturing and export sectors. Compounding that is the current down-cycle in electronics.

The second key risk seen at the moment is inflationary pressure, which will probably persist in the near term. On the external front, the risk is not so acute, compared with what it was previously. However, there is some potential volatility in commodity prices with geopolitical tensions still lingering and China's reopening.

The main concern is more on the domestic side. Car ownership fees and accommodation costs are driving up headline inflation significantly, although the rate of increase has come off a bit recently. There is also wage pressure, because of the tight labour market and impact of the GST increase.

Policy and recommendations

The tightening in monetary policy has been beneficial in maintaining price stability. Headline inflation is difficult to manage, with car ownership and accommodation costs largely influenced by policy measures outside the scope of monetary policy.

Other policy tools, like policies to boost housing supply, should also be considered. This is very important. For example, if government land sales were to proceed at a faster rate, or BTO policies are recalibrated, that could help ease the supply bottleneck.

Car ownerships costs are influenced by Certificates of Entitlement (COEs). Hence, alternative mechanisms for allocation could be useful too.

In the case of labour policy, efforts to promote wage progressivity are good. However, they have quite a lot of impact on inflation. Hence, the timing of the implementation has to be well calibrated.

Global Growth

Mr Nicholas Chia of Standard Chartered Bank agreed with MAS's and AMRO's assessment that global growth is under pressure. This is evident according to PMI and other economic indicators, especially for trade-driven Asia.

Part of it is also driven by the electronics cycle. A look at the earnings transcript of the top five players, including Intel, Micron and Nvidia, shows that everyone is expecting the turnaround to happen in the second quarter (Q2), if not already in Q1.

Furthermore, the strength of the services sector is remarkable according to services PMI, as well as domestic spending indicators like retail sales, particularly for economies like China. Naturally, this raises the question of spillovers to the region.

Inflation and geopolitical tensions

Going forward, there are three swing factors to look out for in terms of the interaction between macro markets. The first is the US debt ceiling talks in the near term. The second is China's economic recovery in the second half of 2023 and first half of 2024 in the medium term. The third is unpredictable geopolitical tensions in the long term.

Discussion Session

China's Outlook

It was noted that China was a huge swing factor in the world. It has a larger footprint in the global economy today compared to a decade ago. As such, initial projections for Chinese growth after its reopening were optimistic.

However, recent data have dampened expectations. The panellists were asked if forecasts regarding China were going to be more pessimistic going forward, and encouraged to discuss the potential impact this would have on Singapore.

Dr Vichyanond agreed that analysts had overestimated the impact of the China's reopening or, at the very least, had thought it would be coming in sooner.

Since the reopening has been largely driven by domestic services in China, it has not benefited other countries including Singapore as much as originally expected. Hence, AMRO had downgraded its outlook for exports and GDP.

Mr Tan stated that China's GDP grew by about 4.5 per cent year-on-year in Q1 2023. That was above-consensus and led to flurry of upgrades to 2023's GDP forecast. Naturally, recent data on inflation and growth has dented that. However, Mr Tan noted that there is just one month of data available so far in Q2. In any case, one would see a slowdown in momentum after a powerful reopening boost in Q1.

Mr Tan also stressed that MAS had been quite circumspect about spillovers from China's reopening to ASEAN and Singapore. The idea was that the recovery would be driven by a rebound in private consumption services. These are not as import-intensive and as a result, there was no expectation that there would be a huge boost to Singapore's GDP. The current situation is actually playing out according to what was expected.

Mr Chia added to what Dr Vichyanond and Mr Tan had said, observing that this was an issue of lags. More specifically, China was kept in "deep freeze" due to its Zero-COVID policy. Its economy was subjected to lockdowns and uncertainty due to the pandemic.

As such, China is only a few months into the recovery. Mr Chia argued that more time was needed for the recovery to play out. Youth unemployment is still really high. The question is whether this will come down in the coming quarters. Hence, it was more helpful to think about this in terms of quarters rather than months.

Mr Chia also raised a salient point regarding the meaning of growth rate projections. He noted that some policymakers had pencilled conservative growth rates of 5 per cent in 2023 for China. Were they dialling back or easing expectations?

Mr Chia said Standard Chartered expected a growth of 5.8 per cent for China, with other banks upgrading projections to 6–7 per cent. He was of the opinion that the latter were a little bit hasty. Mr Chia's view was that growth may actually disappoint vis-à-vis the forecast for 2023.

Indo Pacific Economic Framework

A question regarding the impact of the Indo Pacific Economic Framework (IPEF) on the region was posed to the panellists, including what would be worked out by trade negotiators. In this context, it was acknowledged that some people felt a general sense of pessimism while others were more hopeful.

Dr Vichyanond argued that Singapore was at a very interesting juncture with the US on one end and China on the other. Going forward, each power is going to try to strike deals with Singapore. From Singapore's perspectives, the country will probably net benefit from the relocation that takes place with the building of new factories and manufacturing capacity given its position.

Adding to this, Mr Bhaskaran assessed that there were some fundamental structural issues with IPEF. As long as the US is not politically able to offer trade access, a critical component of what Asian countries desire is missing.

He added that everyone will be polite enough for meetings and negotiations. However, when it comes to the meat of the matter, there is unlikely to be much progress. There will be very partial successes in small areas, but not a big enough step forward to really move the needle in terms of trade integration flows and maintain the momentum of desired trade and integration.

As a result, these structural issues had to be resolved before progress on big issues could be expected.

Session Two: The Impact of the Anwar Government on Singapore-Malaysia Ties

Things to Consider

A "win-win" approach to foreign policy

The panellists observed that as Prime Minister, Anwar Ibrahim would lead a results-oriented government. As such, this would result in opportunities for "win-win" policies to be executed, including with the Singapore government, as well as companies based in Singapore. This extended to companies intending to invest in Malaysia, Singapore and the ASEAN region.

With regard to the economic front, Anwar would look to other countries around the region for greater cooperation in terms of investment and co-investment opportunities. On this note, there were many opportunities for policies to be implemented that could increase the level of economic ties between Malaysia and Singapore.

Anwar's leadership style reflected his personality as somebody who focused on the larger picture narrative. Anwar is well-known among the different leaders in the region and as well as the political class in Singapore. He also carries less political baggage compared to Dr Mahathir when the latter was leading the Pakatan Harapan government.

FDI flows into Malaysia and Singapore

From an FDI coordination and investment possibility horizon, the kind of zero-sum thinking that used to characterise the discussion with regard to FDI coming into Malaysia, Singapore and the region, was a little less intense compared to before.

One example is the building of high-value jet engines in Singapore with some of the components coming from Malaysia. This has been part and parcel of the investment ecosystem, which has not really been emphasised enough as part of the "win-win" narrative for the FDI ecosystem between Malaysia, Singapore and the rest of the region.

Due to cost pressures in Singapore, there are a lot more companies looking to use Singapore as the regional headquarters for financial transactions for tax purposes, but seeking to leverage the hinterland in Malaysia for the provision of shared global business support services.

Policy coordination

In light of the evolving geopolitical situation regarding the US and China, there were areas for possible policy coordination between the two countries, including on areas such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) implementation, as well IPEF.

In areas such as the digital economy, sustainability and the green economy space where Malaysia has signed the Digital and Green Economy Cooperation Framework with Singapore within the context of CPTPP, there will be greater policy coordination and implementation. This relates mainly to some of the chapters of the CPTPP that have not really been implemented or monitored clearly and carefully.

The same thing applies to IPEF. The policy coordination aspects involving Malaysia, Singapore, and other countries that are characteristic of the electrical and electronics supply chain, could be discussed further. This is especially important to Malaysia and Singapore, as well as countries like Korea and Japan.

100 Years of History

The session featured a look into the history of trade between Singapore and Malaysia via its connecting infrastructure. In the early 1900s, much of the debate surrounding the linkage between Johor Bahru (JB) and Singapore involved the development of the rail network in what was then known as the Federated Malay States, with Kuala Lumpur (KL) being the capital. There were also some railway facilities in Singapore.

In 1909, the Sultan of Johor began to construct a railway network that linked up with KL. It ended in JB with goods being offloaded onto ferries. One would then have to cross the Strait and load the goods on a train on Singapore's side of the causeway. By 1917, traffic got quite heavy and it became difficult to transport goods.

On 17 September 1923, the first train carrying mail crossed the causeway. It was later opened to passenger traffic on 1 October that same year. After a while, the authorities decided, as a precursor to containerisation, to do this with railway wagons. Hence, whole wagons would be loaded onto ferries, offloaded, and then collected. From there, they decided to experiment with trucks.

The building of the causeway

As a result, the ultimate decision was that the two areas were to be connected by a causeway. There were two of reasons for this.

The first was that granite was cheap and easily available. There were 1.5 million cubic yards of granite that were sourced primarily from Bukit Timah and Pulau Ubin. This was then used to construct the causeway.

The second was defence. A causeway would be more difficult to destruct. Once this was in place, there would be a much more permanent connection between the two places. Construction began at either end and met in the middle. The transportation of water only entered the discussion later. The first primary driver was always trade.

The causeway was inaugurated on 28 June 2023 to much fanfare. Its opening was marked by a public holiday with 400 guests, the Johor Sultan, civil servants, and the business community witnessing the ribbon-cutting ceremony. The first people across the causeway were Governor Laurence Guillemard[1] and Sultan Ibrahim of Johor who ruled from 1895 till his passing in 1959.

[1] Sir Laurence Nuns Guillemard (1862–1951) was a British civil servant who served as High Commissioner in Malaya when it was part of the British Empire. He was appointed Governor of the Straits Settlements, a position he held from 1920 to 1927.

Implications of the causeway

Given this rich history, the causeway is vital infrastructure. However, it is not monumental. It does not capture people's imagination. This is not the Eiffel Tower, Marina Bay Sands or the Petronas Twin Towers.

Nevertheless, the causeway suddenly made independent travel between Singapore, KL and wider Malaya a reality. Autonomous travel and person-to-person linkages were made possible. Immediately after, anecdotes of how rapidly developments had taken place organically on either side of the causeway sprung up.

Whenever infrastructure is built, backend planning must be done. In this vein, there were a lot of complaints about infrastructure and connecting roads. For example, there was a very tight hairpin turn in Kranji that caused many accidents. As such, people questioned the relevant authorities if they had carefully considered what was needed to support the building of the causeway.

Key Lessons

There were three things to learn from this exercise.

The first was that trade was a motor. With regard to the need for a causeway, water importation and people-to-people movement were secondary concerns. The primary motivator was trade. However, modalities change over time. Back then, it was all about rail. Now, it is all about cars, trucks and couriers.

The second is that this linkage between the two countries and territories has the duality as both domestic and international infrastructure, as it predates independence. Just a year after separation between Malaysia and Singapore, a speaker from the Johor state government called for the demolition of the causeway. Sentiments changed a few years later, with the Menteri Besar, or Chief Minister of Johor, discussing a potential second link from Johor to Singapore to relieve traffic in Johor.

The third is that there is a trilateral dynamic between Malaysia and Singapore, particularly with the role of Johor, which is still important today. The causeway serves to connect as well as to separate. In a strange way, it is so vital but also mundane. It is next door, kind of domestic, somewhat international, but not grand. Hence, it is very easy to take this relationship for granted.

Discussion Session

The Scope for Closer Coordination

A question regarding Anwar's desire to avoid being out-manoeuvred by his political rivals was posed to the panellists. Since this was a chief concern of his, how much scope would there be for closer coordination between Singapore and Malaysia?

The panellists argued that the two issues were not necessarily mutually exclusive. The domestic political constraints Anwar faces are real. However, the inclusion of UMNO within the unity government also gives the government a lot of cover in terms of its possible cooperation and international outreach.

Anwar has been conducting his foreign policy engagements in a rather inclusive manner. It includes visits to Singapore, Indonesia, Turkey, as well as important partners in the region such as China, the US, Japan and Europe. Hence, his visits have not been exclusively focused on Singapore.

This allows the kind of regular engagements and ties that were interrupted due to COVID to be depoliticised. Furthermore, some of the tensions that were present during Dr Mahathir's terms as prime minister can be put aside.

Technocratic and policy-based engagements are the kind of engagements both countries need, and away from the political spotlight. The goal is to find good wins that can be promoted. For example, on the Johor Bahru-Singapore Rapid Transit System (RTS), the ministers of transport from Malaysia and Singapore recently visited the RTS site to take note of the progress that is happening.

Such things are central to the trilateral relationship between Malaysia, Singapore and JB. They extend to other things such as the investment climate and engagements with the business community. One example of this is the regular flow of private capital from Singapore into Malaysia, be it in the private equity, manufacturing, or services space. Those are the kinds of activities that will benefit the economies of both countries.

Complex issues like water prices, airspace, maritime borders, and anything that touches sovereignty, are best left to the side for the moment. Instead, regional economic agreements could yield more results.

The Kuala Lumpur-Singapore High Speed Rail

A participant asked whether discussions of a Kuala Lumpur-Singapore High Speed Rail (HSR) would resume.

The panellists said that public statements by key officials show that they are looking into this. However, the understanding is that this has got to be a private sector-funded initiative.

It was speculated that the Malaysian government was much more focused on looking at the awarding of the contracts for the Mass Rapid Transit (MRT) line 3 as a big public infrastructure project, rather than reviving the HSR.

The Johor Bahru-Singapore Rapid Transit System was perceived as something that could lay the framework. Once it is in business, it will help build confidence and create momentum. The wish was that if the HSR was ever built, it would be open to freight.

The example of Japan using HSR wagons to transport high value-added components for electronics was cited. A look at global production networks shows that the HSR would go through some very important nodes for electronics production.[2] Hence, there would be no better, quicker, safer, and more efficient way to link these together.

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[2] In this sense, the HSR would connect KL, JB and Singapore together as part of one electronics supply chain, which in turn would be part of a larger regional network.