The 39th Singapore Economic Roundtable

By R Avinash

The Governance & Economy Department of the Institute of Policy Studies (IPS) held the 39th Singapore Economic Roundtable (SER) on 9 November 2023. The event had a total of 41 participants including economists, academics, business leaders and policymakers from the public and private sectors.

The 39th SER was divided into two segments. The first was a special session featuring Minister for Trade and Industry Mr Gan Kim Yong, who delivered a keynote speech. It also involved sharing under Chatham House Rules, by Mr Sin Beng Ong, Head, EM Asia Economics Research, JP Morgan Chase & Co; and Mr Ziad Haider, Global Director, Geopolitical Risk McKinsey & Company, Singapore.

The second focused on the macro-economic outlook and its implications for monetary and fiscal policy. It featured Mr Edward Tsang, Lead Economist, Economic Policy Group, Monetary Authority of Singapore (MAS); Mr Chua Han Teng, Economist at DBS Bank Ltd; and Mr Kaho Yu, Head, Energy and Resources Research, Verisk Maplecroft.

The first session was moderated by Mr Christopher Gee, Deputy Director & Senior Research Fellow at IPS, while the second was moderated by Mr Manu Bhaskaran, Adjunct Senior Research Fellow at IPS.

The complete proceedings from the 39th SER will be documented in an IPS publication and released later. A summary of the issues discussed is presented here.

SESSION ONE: KEYNOTE SPEECH AND SPECIAL SESSION

Minister Gan Kim Yong's Speech

Challenges to globalisation

Minister Gan noted that for 30 years since the Cold War, globalisation has benefited the world. Markets were the liberalised and trade flourished. This rising tide lifted many boats, especially small *sampans* like Singapore.

Since the inaugural Singapore Economic Roundtable in 2003, Singapore's GDP per capita has grown from about S$40,000 to slightly more than S$100,000 in 2023. This is an increase of more than 5 per cent per annum on average for 20 years. However, globalisation is at an inflection point. The Washington consensus of liberalisation and free markets is now being challenged.

Reorganisation of the global economic landscape

First, there is a reorganisation of alliances as countries seek new partners against the backdrop of a changing geo-economic landscape. Multilateral institutions, such as the Brazil, Russia, India, China and South Africa (BRICS) bloc of top emerging economies, are increasingly seen as alternatives to established global bodies dominated by the traditional powers. Foreign investment flows are also becoming more concentrated amongst countries that are geopolitically aligned.

Second, there is a reorganisation of global supply chains. Countries are pursuing de-risking strategies such as nearshoring or front shoring their supply chains to enhance their resilience. This bifurcation in economic systems has the potential to exacerbate rivalries and frictions between countries, rather than cooperation and partnership.

Third, there is a rebalancing of priorities. In such an environment, economic imperatives are increasingly being weighed against national security considerations. Countries are more ready to pursue policies such as sanctions, export and import controls, investment restrictions, and technology transaction rules, even if this may come at the expense of economic growth.

Three strategies

1) Maintaining the rules-based global trading system

First, Singapore must continue to expand its connectivity to regional and international economies so that it can widen its economic space and ride the wave of global opportunities. Singapore is a small and an open economy. The city-state cannot afford to turn away from the global market, noted Minister Gan. It also cannot afford to have the global market turn away from it.

Singapore will therefore need to continue supporting and strengthening the rules based global trading architecture, by reinforcing key multinational multilateral institutions such as the World Trade Organization (WTO). An effective and well-functioning dispute settlement system is the cornerstone of a rules-based trading system, he added.

This is why Singapore has been a strong supporter of reforming the WTO dispute settlement system. Its leadership role in the WTO's Joint Statement Initiative on Electronic E-Commerce (JSI) also demonstrates the city-state's commitment to exploring practical and inclusive ways to foster collaboration. Members that are ready and willing to commit to rules on trade-related aspects of electronic commerce can join the JSI.

2) Seeking out new areas of cooperation

Second, Singapore must seek out new areas of cooperation. This will allow it to deepen collaboration, said Minister Gan, while also strengthening its relevance as a global business hub. Sustainability is one area where there are interesting opportunities for growth and strong potential for international collaboration.

Green financing, carbon services and trading are some examples of new industries that Singaporeans can look forward to in the green economy. Singapore's green economy agreement with Australia, the first of its kind, will facilitate Singaporean businesses' overseas trade and investments in green goods and services, as well as catalyse businesses to pursue emission reduction and decarbonisation.

Besides identifying new areas of cooperation, Singapore must also forge new models of collaboration to respond to the shifts in the global economic landscape. The JSI initiative is one example. He added that the Indo-Pacific Supply Chain Agreement (IPEF), which allows parties to collaborate on supply chain developments, is another example of how the global community can turn challenges into opportunities and continue to find bright spots of collaboration amidst growing risk of fragmentation.

3) Safeguarding critical entities

Identifying critical entities crucial to the Singapore economy and society, and ensuring their continuity, will provide investors with confidence that Singapore has adequate and effective provisions to ensure the proper functioning of the economy. Minister Gan said that globally, an increasing number of jurisdictions have recognised the importance of safeguarding the ownership and control of such critical entities.

Many countries have tightened or introduced measures to screen investments for national security reasons in recent years, with more planning to do so as well. These include traditionally open economies like Switzerland and Ireland. Singapore currently relies on a range of sectoral legislation to monitor and manage entities in regulated services, such as telecommunications, banking, and finance, as well as utilities.

This is why MTI introduced a new significant investment review bill earlier this week, noted the minister. This bill will complement existing sectoral legislation by setting up a new investment management framework for critical entities not adequately covered under existing sectoral legislation.

MTI will share the details of the bill and will be working with them on the implementation details as well. After the bill is passed, a dedicated office will be set up to implement the legislation and closely engage businesses and investors. This will ensure that the process is as efficient as possible.

Panellist Session

The restructuring of trade flows

The world was moving away from the post-Roosevelt environment of a rules-based system to one where “might is right”. This is just a natural outcome of some of the portents that have evolved in the recent past and potentially going into the future as well.

There have been significant changes in these trade flows. This is due to very muscular industrial policy and a concerted effort to onshore supply chains regarding key technologies such as semiconductors.

In this sense, Singapore must prepare for much more turbulent times. This is something that is manifesting not just in technology, but also in an increased emphasis in security over profit in the commodity space.

For example, China is the largest energy importer in the world. In the last two years, there has been a shift away from Australia which is seen as a country that is not particularly aligned with China, in favour of some of the countries are seen to be more in favour in Beijing. This is the emergence of further segregation in terms of trade flows. Whether these will be further weaponised remains to be seen.

In view of this, what can Singapore, a small open economy highly reliant on imports from the rest of the world do? The city-state must make as many friends as it can. Hopefully, Singapore will not be forced to choose between the US and China.

Geopolitical fragmentation

The current geopolitical fragmentation can be attributed to three fault lines or fractures in the landscape. There is the Russia-Ukraine war, the conflict in the Middle East between Israel and Hamas, and the escalating competition between the US and China and its ripple effects.

However, other factors include the rise of "middle powers" such as Brazil, Saudi Arabia, Indonesia and India. These are economies that are trying to create space for themselves. Unlike the non-aligned movement during the Cold War, these same economies have a much greater weight and share of the global economy. They have much greater political clout.

The reality of splintering supply chains has an impact on a country like Singapore that has survived and thrived based on a single operating model of the global economy. The world is now a place where there are multiple operating models taking shape. This has implications for certain sectors of the economy like food security, whereby Singapore imports 80 to 90 per cent of its food.

This exposure to regulatory restrictions on goods like eggs, sunflower oil and chickens, in addition to global conflicts, demonstrate a world whereby unfair legal and regulatory restrictions occur regularly.

While it is difficult to predict the next big crisis, Singapore is uniquely placed to play an even bigger role as the key connector geography or node in the global economy. Singapore can continue to build upon its special role as a geo-economic oasis for investments, capital, people, and business activities.

Discussion Session

Singapore's access to talent

A question regarding Singapore's access to talent as well as its ability to remain competitive was posed to the panellists. Could the city-state become the target of other countries and therefore, must increase its competitiveness even more? This includes competitiveness across all domains including the fields of human talent and business.

The response was that the race for talent would always be a constant. This was due to the highly competitive environment Singapore found itself in, as well as non-static nature of her competitors. As Singapore became more competitive, they too were becoming more competitive.

Singapore's competitors were also changing, with more challenges from low-cost countries that were improving their quality, as well as traditionally high-income countries that were beginning to keep their costs down. As such, Singapore has to be competitive, cost-effective and high-quality.

Singapore's ability to remain an attractive place to do business is dependent upon good governance, clear rules and a consistent approach to investments so that business investors would have confidence. In the case of talent, Singapore needs to ensure that talent who work here are able to live in a safe and secure place with their family members too.

In addition to this, it is necessary for Singapore to be a place for talent to easily pass through. This is to the city-state's advantage as the talent that moved to other countries would allow Singapore to build greater networking ties with these states.

The healthy flow of talent also entails a healthy flow of investment for Singapore. As such, it is in Singapore's interest to remain open to investment. However, being open to people from around the world also requires a balance between competitiveness and managing risks that came with it. These include greater scrutiny of inflowing investments into Singapore as alluded to earlier.

Pressures on the population

How can Singapore balance the need for greater competitiveness with managing the greater pressure this wrought on Singaporeans as well as Singaporean businesses? Competition would exert certain pressures on Singaporeans and businesses. As such, businesses had to constantly renew themselves. Long gone were the days when you would stay in one job for decades. As such, there needs to be a great deal of flexibility and adaptability. The analogy of Singapore as a *sampan* is relevant in this regard.

The government is doing what it can to install stabilisers that would support Singaporeans and their businesses in their efforts. This is so because Singapore had more resources now to look after those who are vulnerable so that no one would be left behind. This also involves helping Singaporean companies stay innovative so that they can allow Singapore to have their own offering of services and products.

Manufacturing sector evolution

Given the importance of manufacturing to the Singapore economy, as well as the increasing number of challenges, how does the government envisage the manufacturing sector evolving? Was the desired 20 to 25 per cent of GDP a realistic goal for manufacturing in the foreseeable future? If not, what are some of the incremental domestic tools or policies the government need to think about? Inflationary costs and increasing cost pressures are also factors that can hamper the government's desire to ensure manufacturing stays rooted in Singapore.

In this regard, the government has announced the *Manufacturing 2030 Plan* a few years back. The idea is that the policymakers will be glad if Singapore can grow the manufacturing sector to slightly more than 20 per cent. As a result, manufacturing will continue to be an important component of the overall economy.

Furthermore, Singapore's manufacturing strategy has shifted from industrialisation to creating adopting an ecosystem approach. This entails creating a network of interdependent companies with strong synergy that share a symbiotic relationship with each other. It does not matter whether these are in the semiconductor, food technology or biotechnology industry, for example. The plan is to entrench an ecosystem in Singapore that will make relocation for companies easier.

While it was noted that it would be extremely difficult to relocate an entire ecosystem, once an entire ecosystem has been built it would be hard for competitors to replace Singapore in the value chain. Nevertheless, other countries are also offering grants and incentives to get companies to set up their bases, and Singapore may not have the resources to compete with them. The city-state could find other ways to attract companies through support for innovation and R&D (research & development).

Overall, Singapore can be confident of growth in the manufacturing sector due to certain advantages like the ecosystems that have been built, infrastructural investments and extensive connectivity around the world. With Asia being the growth engine of the world for the next decade, manufacturing plants will look at Singapore as an attractive destination.

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

Global Economic Developments

The global economy has shown remarkable resilience despite aggressive monetary policy tightening. However, growth has been uneven across regions as well as sectors, with the manufacturing sector globally still in doldrums.

The US continues to outperform amid robust household spending. Chinese activity has stabilised, but the property sector remains a drag. In contrast, activity has deteriorated in the Eurozone. For the rest of Asia, economic growth has been dampened by with demand for consumer goods and electronics. Inflation has fallen as the effects of the commodity price shock have receded and supply chain pressures have been largely resolved. Subdued Chinese demand and overall weaker global demand for manufactured goods are adding to the disinflationary trend. However, elevated services inflation has meant that the moderation in core inflation across most advanced economies has been gradual.

The Singapore Economy

The Singapore economy stagnated from late 2022 to the middle of 2023, driven by weakness in the manufacturing and financial services sectors. The third quarter of 2023 likely marked a turning point in this slowdown. GDP growth also picked up, from 0.5 per to 0.7 per cent in the first half of 2023.

There were signs of convergence among the broad clusters of the economy, with some recovery in the external facing sectors, even as growth in the domestic oriented sectors moderated. The strength and sustainability of the pickup in the Singapore economy will hinge on external final demand which could be weighed down by uncertainties, including any broadening of the Israel Hamas conflict. Barring renewed shocks in the global economy, the convergence in growth rates across sectors towards their pre-COVID trends are expected to continue in the quarters ahead.

Manufacturing in Singapore should see a cautious recovery alongside nascent signs of stabilisation in the global electronics industry. Financial services growth appears to have bottomed up amidst plateauing interest rates. Conversely, growth in the travel-rated and domestic-oriented sectors is expected to normalise as opposed to reopening momentum waves. Overall, GDP growth is projected to be at the lower half of the 0.5 to 1.5 per cent forecast range in 2023 and coming closer to its potential rate in 2024.

Business Costs

Business costs have been a top challenge for Singapore companies in 2022 and 2023. This can be gauged by sentiments and surveys conducted by the Singapore Business Federation. Business costs can be tracked from four perspectives, mainly: wages, logistics and imports, utilities, and rentals.

Wages in level terms are above what would have been implied by the pre-pandemic trend, although the growth has peaked. Reasons for this include the tight labour market, due to the competition for talent, as well as shortages, for example, in the non-residential workforce due to the pandemic. As such, wages are likely to grow further but at a slower pace in the construction industry, for example. This is due to the fact that business hiring and wage sentiments have weakened amidst a still uncertain economic environment.

Logistics costs are more contained now. Global supply chains disruptions are largely resolved. Import costs have also moderated but are facing upside risks in an uptake in global oil prices, as well as latest developments in the Middle East.

Utilities in the form of electricity prices are not necessarily a challenge for most businesses, including those in the services sector. However, businesses may be feeling the pinch; in terms of prices, they are high but moderating and contained by below-peak oil prices, which natural gas contracts are linked to. As long as the Singapore economy continues to grow, electricity demand will continue to increase.

There has been a steady increase in office rentals, with high rents for offices. One reason for this is the tight supply in the office market that is keeping these rents high, even as businesses shift towards a hybrid working environment. Industrial rents have also risen. This is affected by manufacturing weakness, due to supply disruptions brought about by the COVID-19 pandemic, as well as logistics firms expanding their presence in Singapore as seen in 2023.

Energy Markets

Geopolitics has taken centre stage for energy markets. This has been the case for the last few years and continue to remain a key risk trend. This is mainly because it is already embedded in the market and very difficult for the supply side and side to get rid of it.

The cascading effect of multiple geopolitical crises in Ukraine and the Middle East has kept energy prices uncertain. While the impacts of these geopolitical events may moderate over the course of weeks and months, they may cause escalatory spillover effects on the global energy market.

One big uncertainty for 2024 will be the production policy of the Organisation of Petroleum Exporting Countries (OPEC) plus and voluntary supply cuts. These factors have disproportionally tightened the global supply. On the demand side, the weakening global economic outlook and inflation will be a concern to a lot of industrial activities. International travel is not expected to recover robustly. This will have some impact on the field demand in Asia, especially those larger markets.

Discussion Session

Softness of energy prices

A question regarding the surprising lack of persistence in rising energy prices was posed to the panellists. Why were energy prices back at lower levels given the latest conflict between Israel and Hamas?

The market had nightmares in the past whenever there was a geopolitical crisis, with utility prices increasing. This happened during the Ukraine crisis. However, the Israel-Hamas conflict showcases the difference in the structure of the energy market. The Ukraine crisis mainly affected gas prices more so than utilities. In the Israel-Hamas conflict, oil is not really affecting the supply side. If the conflict is constrained, the global supply will not be impacted as much.

However, if there is an escalation of the conflict that draws regional players like Iran and Saudi Arabia, supply will be affected. The Israel-Hamas conflict is important for people who observe the commodity market there. However, this issue is not impacting the market as much. This is also the reason why the oil prices are expected to stabilise in a few weeks.

Investment diversification data matching real life

It was noted that supply chains were notoriously hard to restructure. Despite everything that was reported in the press, significant shifts in company investment decisions were not being observed. As such, given the magnitude of risk premium or cost increases being estimated, was there an actual, physical orientation of global production organisation in the world? In other words, were physical actions in the world matching what the data or numbers were stating? This point was raised in reference to the effects of geopolitics or rising costs on supply chains and whether companies were diversifying their investments, mainly out of China.

A response was that it took a while for these things to gather momentum. However, incipient changes were already being observed. For example, the new rendition of the 2022 CHIPS Act would already have had a profound impact as it effectively limits certain technologies from migrating from one part of the world to another. This is being reflected in some of the corporate decisions of companies to set up plants in their home countries, which is already happening. However, this is also very sector-specific and is happening more rapidly in some sectors than others. De-risking was certainly on the minds of corporations as the direction of foreign direct investment was certainly trending away from China.

It was noted that there would sometimes be a lag in the data that was being produced. The reconfiguration of supply chains was indeed accelerating based on the media reporting, company announcements and earnings statements. However, this was a complex issue as de-risking was easier in some sectors, whilst extremely difficult in others given the absurd advantages China had in them. These included areas like chemicals, automobile parts, electrical vehicles, solar panels and batteries, and many types of equipment. In fact, many companies were doubling down on investments in China due to the clear benefits China brought them.

The outflow of investments was also not one-sided. Investment outflows were not only being undertaken by Western companies. Chinese and Taiwanese companies were also increasing investments in ASEAN, with Thailand, Malaysia and Vietnam being potential destinations. As such, the diversifying of supply chains and investment flows is a reality that countries around the world, including the US and China, are bringing about due to internal and external trends.

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