Media Coverage

Singapore adjusts its economic sails as China, regional infrastructure fuel growth

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It's not always plain sailing in business – particularly when you're trading across borders. HSBC's 2017 Trade and Business Confidence Survey surveyed more than two thousand corporates globally (250 in Singapore) as to what their expectations for cross-border trade and activity over the next six months are. The survey showed that sentiment in Singapore has dropped in comparison to the previous year.

The number one concern for many corporates is the uncertain impact of recent and upcoming political elections in the U.S., the UK and France, and the potential knock-on effect they will have on exchange rates and trade agreements and trade more broadly through the course of 2017.

Singapore's open economy has been a hallmark of its success over the decades. Its openness, though, makes it highly susceptible to the current global economic quagmire that continues to weigh on business sentiment.

Green shoots

However, things might not be so bleak. There's reason to be cautiously optimistic.

While consumption and the labour market are likely to remain constrained, strong fourth-quarter 2016 growth and upbeat indicators, can only further buoy the Monetary Authority of Singapore (MAS) to make good on its guidance to keep policy neutral for longer.

This was further reinforced by the MAS' quarterly survey among private-sector economists which was released recently.

The survey found that external-facing indicators – including Asian demand for Singapore's manufacturing - was strong enough for the cohort to lift their expectations for Singapore's economic growth in 2017 to between 2 and 2.9 per cent (from the earlier 1 to 1.9 per cent range).

Improved conditions in the US economy will also likely have a positive effect to the broader global economy including Singapore.

The US Federal Reserve has also raised its interest rates for the second time in three months. This is the first time there has been two rate hikes in a quarter for 12 years and in an indicator that green shoots in its economy are finally emerging.

There's also the Chinese factor. China's focus on its international growth continues to offer a bright spot for corporates in Singapore and ASEAN.

China taking the lead on international trade

As trade deals begin to take a new path – away from the Trans-Pacific Partnership towards a Regional Comprehensive Economic Partnership – there are plenty of opportunities for growth in this region.

China has already begun to fill the void left by the trade and investment slowing of many western nations. Nowhere is this more evident than in South-East Asia.

Bilateral trade between China and ASEAN has increased from US$7.96 billion in 1991 to US$472 billion in 2015. ASEAN and China are keen to double their trade value and have set a target of US$1 trillion by the end of 2020.

Chinese investment is also beginning to spike. In 2016, Chinese companies spent over US$225 billion in acquisitions abroad - more than double that of 2015. Singapore, Russia, Indonesia, the UAE and Turkey - collectively accounted for about 90% of China's total 2015 overseas direct investment in the Belt and Road region.

Singapore alone took up more than half of this - representing an amount equivalent to at least US$6.4 billion.

Regional infrastructure will be a boon for corporates

The Singapore government's expansionary policies also offer a commercial salvo that will stimulate economic growth, domestic enterprise development and productivity.

The recently announced 2017 Budget included a SGD$750 million fast-tracking in infrastructure spending. This is in addition to the previous year's Budget commitment of doubling infrastructure spending over the next five years to SGD$30 billion in 2020.

Infrastructure development is happening right across South-East Asia. In fact, the Asian Development Bank has recently doubled its estimates for the amount of infrastructure needed in Asia, to US$1.5 trillion a year from now to 2030.

The supply chain ecosystems that will emerge from the upcoming regional infrastructure pipeline - involving engineering, construction, architecture, operations and maintenance companies - will be a boon for several sectors in Singapore particularly, the transport, industrial machinery and services sectors.

Singapore corporates adjust business models in response to market dynamics

While government measures highlighted in the recent Budget and Committee on the Future Economy will inevitably ignite growth, Singaporean companies aren't waiting for things to come to them.

Some have re-examined how they generate revenue or manage their operational costs, while others are identifying opportunities in new markets, or revolutionalising the way they design and market their products. The nimbleness and flexibility of these organisations will help them ride out the current cyclical downturn.

Short-term gyrations and challenges to the economy are a constant. Singapore's strong links with China put it in a better position to deal with a downturn. However, it's essential that local companies keep evolving, innovating and adapting to the changing environment.

The pessimist complains about the wind. The optimist expects it to change and the realist adjusts the sails. That's exactly what we need to do here in Singapore. The ability to transform is what will keep businesses and the economy sailing with the wind.

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