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COMMENTARY

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Forget the past as Singapore escapes the economic trough in 2017

BY ONG KAI KIAT

It can be difficult to let go of the past and look forward to the future.

After the Global Financial Crisis of 2009, Singapore rebounded with a strong 15.2% growth in 2010 which sizzled down to 2% in 2016. This led to a recent assessment (https://www.aseantoday.com/2017/09/singapores-uninspiring-economic-growth/) by some observers that Singapore is an economic malaise and would have a weaker 1% growth in 2017.

The actual situation cannot be further away from the truth. As early as March 2017, private sector economists had increased their growth outlook from 1.5% made in December 2016 to 2.0% for Singapore in 2017 on the back of strong exports and manufacturing activities. Then in July 2017, some economists raised doubt about Singapore's growth. Finally, they come to a consensus that Singapore's growth will hit 2.5% in 2017 on 06 September 2017.

Trapped in the past – losing out enormous opportunity

The fact is that over the past 9 months, economists had increased their growth estimate of Singapore by 1% to 2.5%. So, what does an additional 1% of growth means?

Singapore created S$367 billion worth of wealth last year in 2016 and the 1% increment will result in S$3.67 billion of extra wealth in 2017. Overall, economists expect Singapore to increase its national wealth by S$9.175 billion this year alone.

Restored ties with China & reduced Malaysian threat

One major reason behind the gloomy assessment of Singapore's economy was the strained ties with China over the South China Sea dispute. The peak of the friction came when Singapore's meeting with Japan was seen as a measure to contain China in September 2016 and cumulated in Hong Kong's confiscation of 9 Singapore tanks in November 2016. Massive investments in neighbouring Malaysia in the rail and port industries followed in January 2017 (http://www.thestar.com.my/news/nation/2017/01/15/china-projects-to-hit-singapore-the-giant-republics-aggressive-investments-in-ports-and-rail-links-i/) and they undermined Singapore's leading port position.

However, the honeymoon period did not last long. By May 2017, Chinese projects in Malaysia were under dispute and cancelled for dubious reasons. Chinese state controlled shipping lines began to pull out of Malaysia's Port Klang and back to Singapore PSA Port in September 2017.

Singapore started to push for warmer ties (http://www.channelnewsasia.com/news/singapore/singapore-china-enjoy-strong-bilateral-ties-that-have-adapted-to-9027630) with China publicly since July 2017 which bore fruit. Singapore's Prime Minister was warmly received (http://www.channelnewsasia.com/news/singapore/many-opportunities-for-china-and-singapore-to-build-ties-in-new-9234208) by both the Chinese President and Prime Minister during his state visit in September 2017. Contrast this to his non-invite (https://www.bloomberg.com/news/articles/2017-05-18/singapore-out-in-the-cold-as-southeast-asia-chases-china-cash) to a key international meeting in May 2017 which led analysts to believe that Singapore will miss out on billions of investment opportunities.

Singapore had restored its friendly ties with China which was its top trading partner in 2016 and lifted a major worry in the minds of businesses and investors. Singapore can now reap the fruits of China's Belt and Road initiatives and Government to Government industry parks collaboration projects in addition to various corporate investments such as Singapore shipping line PIL's $206 million investment in Guangxi this month.

Strengthening US Economy

Whilst there was bearish views about the US economy in 2016, the beginning of 2017 marks a shift in opinion (https://www.forbes.com/sites/adamsarhan/2017/01/10/jamie-dimon-is-bullish-on-the-u-s-economy-heres-why/#758f77a46a2b) as led by JP Morgan Chairman, Jamie Dimon. In January 2017, Dimon based his bullish thesis on an improving economy which leads to better wages and consumption.

In May 2017, a new survey of 1,200 Small and Medium Businesses (SMB) by Citizens Bank discovered that 51% expected significant improvement and 46% expected a tempered improvement in the business environment. This bullishness means that 75% are going to increase capital expenditure in technology and hire more workers which comprised of 48% of the private workforce in the US.

This resulted in increasing consumer confidence in both July and August 2017 as measured by the US Conference Board (https://www.conference-board.org/data/consumerconfidence.cfm). As the economy expanded by 3% in the second quarter and employers added 156,000 jobs (https://www.cnbc.com/2017/09/08/the-associated-press-us-consumer-borrowing-increased-in-july.html) in August 2017, the Federal Reserve found out that consumers were more confident to take on more personal loans which increased significantly from $11.9 billion in June to $18.5 billion in July. As consumers take on more loans, they prefer consumer loan over credit card and are comparing affordable consumer loans to finance more consumption smartly.

Even the Federal Reserve led by the cautious Chair Janet Yellen (https://www.washingtonpost.com/news/wonk/wp/2017/09/20/in-sign-of-u-s-economys-strength-fed-to-start-reducing-4-5-trillion-balance-sheet/?utm_term=.dc390989a926) concluded that the US economic performance is strong and would grow by a higher rate of 2.4% this year. They are taking the unprecedented step of cutting its massive $4.5 trillion holdings by $10 billion a month from October 2017 onwards.

Shift into high gear

When we are trapped in the past, we are likely to accept old opinions that the economy is bad when it is starting to shift to high gear. This erroneous world view constraints us from chasing the opportunities that are available in the market.

Of course, there are new challenges for Singapore. IT Solution System (https://www.itsolution.com.sg/security/singapore-strengthens-its-cyber-security-armour/) noted that cyber defence had attracted top ministerial level attention over the past 2 years and efforts to address it had intensified over the past few months. Singapore faces the shortage of qualified cyber security specialists and possible rise in unemployment due to skills mismatch in the new digital economy.

Threats and opportunities exist hand in hand. A new wave of growth is starting. Are you ready to let go of the past and embrace the future?

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Ong Kai Kiat is the founder of TextInAsia, a Singapore-based independent source of insights in the fields of finance and technology. He had years of experience in contributing articles to various reputable websites. TipRanks (http://www.textinasia.com/portfolio-of-work) had ranked him internationally as a four-star blogger for his work in finance.

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