

Changing Structure of International Competitiveness: Singapore's Future in a Fractious World

Singapore Economic Policy Forum 2019

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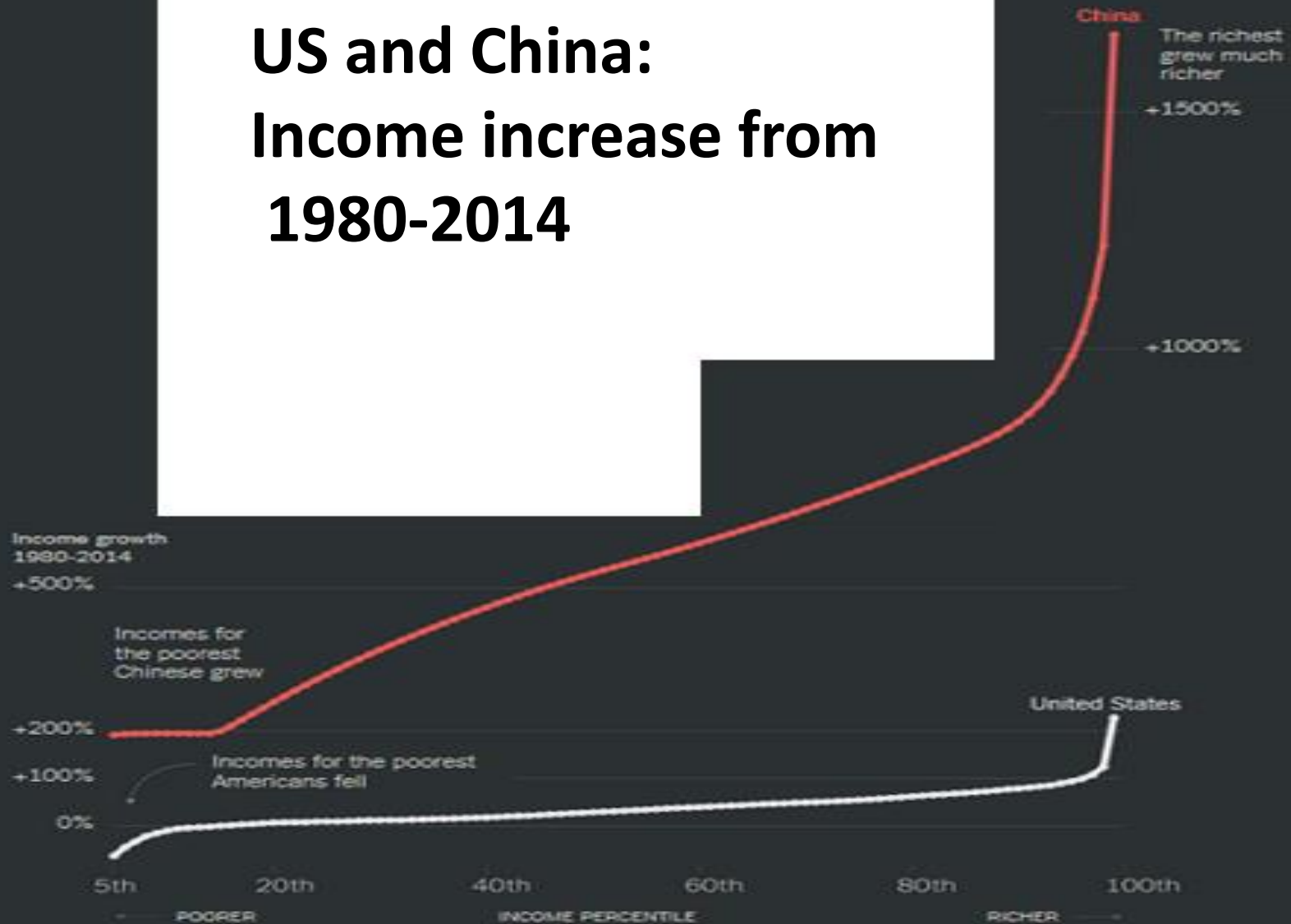
24 October 2019

Outline of Presentation

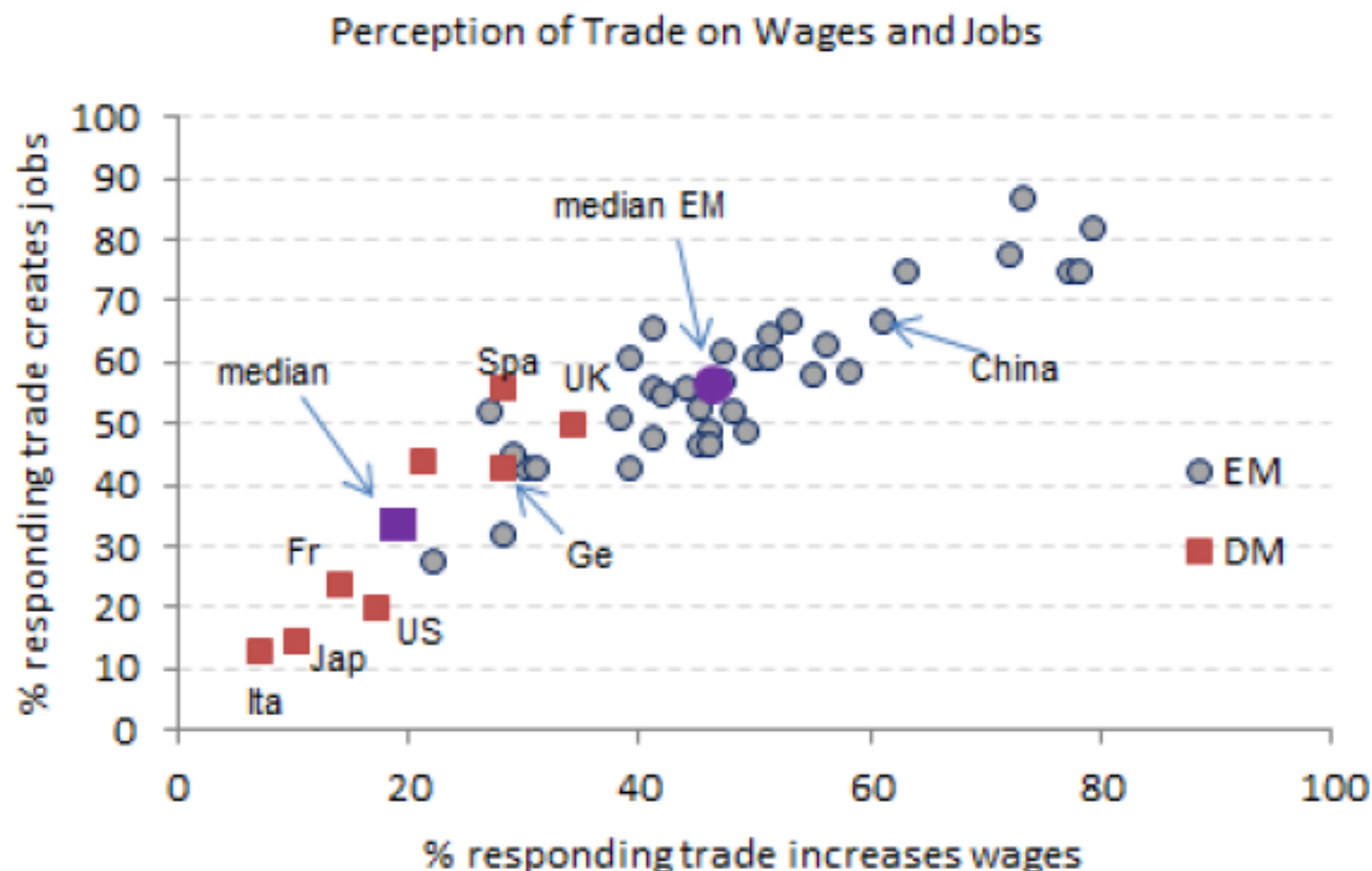
- **Rising global instability**
- **The rising importance of soft infrastructure in international competitiveness**
- **Singapore's sustainable competitive strength is in soft infrastructures**
- **Ethnic, Linguistic and Religious Fractionalization**
- **Only acceptable and viable hub in the Asia Pacific region**

Rising global instability

US and China: Income increase from 1980-2014



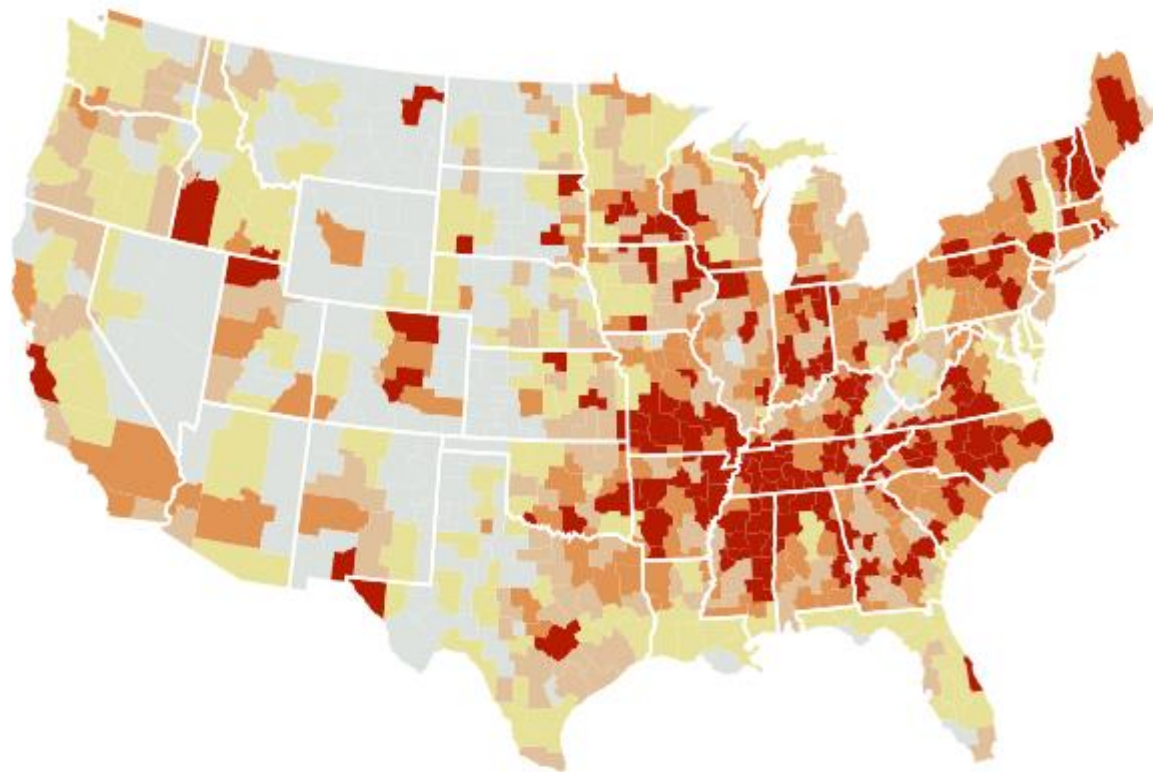
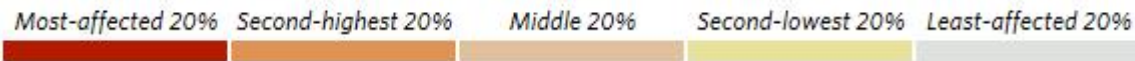
Perceptions of trade openness being beneficial for wages and jobs varies widely across countries



Source: PEW foundation [Note: Percentage of people choosing "trade increases wages" from 4 possible responses; the other choices were "trade decreases wages", "trade does not make a difference", and "I don't know". The same formulation applies to the jobs question. The survey is from 2014.]

Most-affected areas of the U.S.

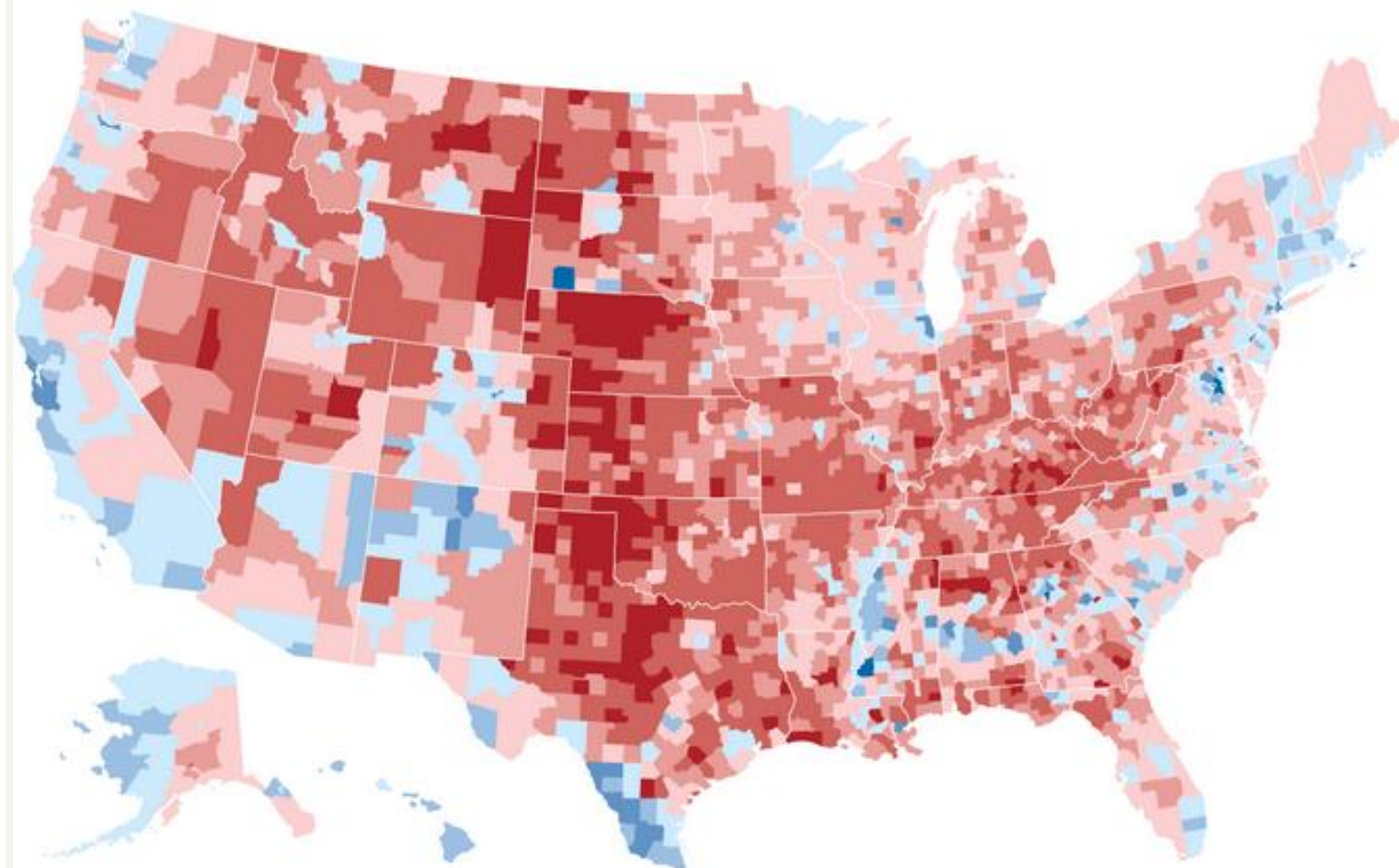
Colors show which areas were most affected by China's rise, based on the increase in Chinese imports per worker in each area from 1990 to 2007. Hovering over each area on the map will show a demographic breakdown of that area, below, and its most-affected industries, at right.



Most-affected industries

Most-affected industries, based on number of areas*	Impact per worker†
Furniture and fixtures 196 areas	\$44k
Games, toys, and children's vehicles 114 areas	\$488k
Sporting and athletic goods 106 areas	\$82k
Electronic components 87 areas	\$65k
Plastics products 84 areas	\$11k
Motor-vehicle parts and accessories 79 areas	\$12k
Electronic computers 68 areas	\$207k
Radio and tv communications equipment	

... looks similar to one showing
where voters backed President Trump.



Election results by county

70% 50% 30%

30% 50% 70%

Clinton's margin

Trump's margin

Key Players in US Policy towards China

Corporates/Wall Street

- More market access and profits (Mnuchin, Kudlow)

Trade Warriors

- De-couple US/China economies
- Undermine MIC 2025 (Lightizer, Navarro, Commerce Dept)

Défense Hawks

- Maintain US tech /military superiority (Bolton, Pompeo, Pentagon, Security agencies)

Trump: Re-elected in 2020 or Jail?

- Maximize political survival

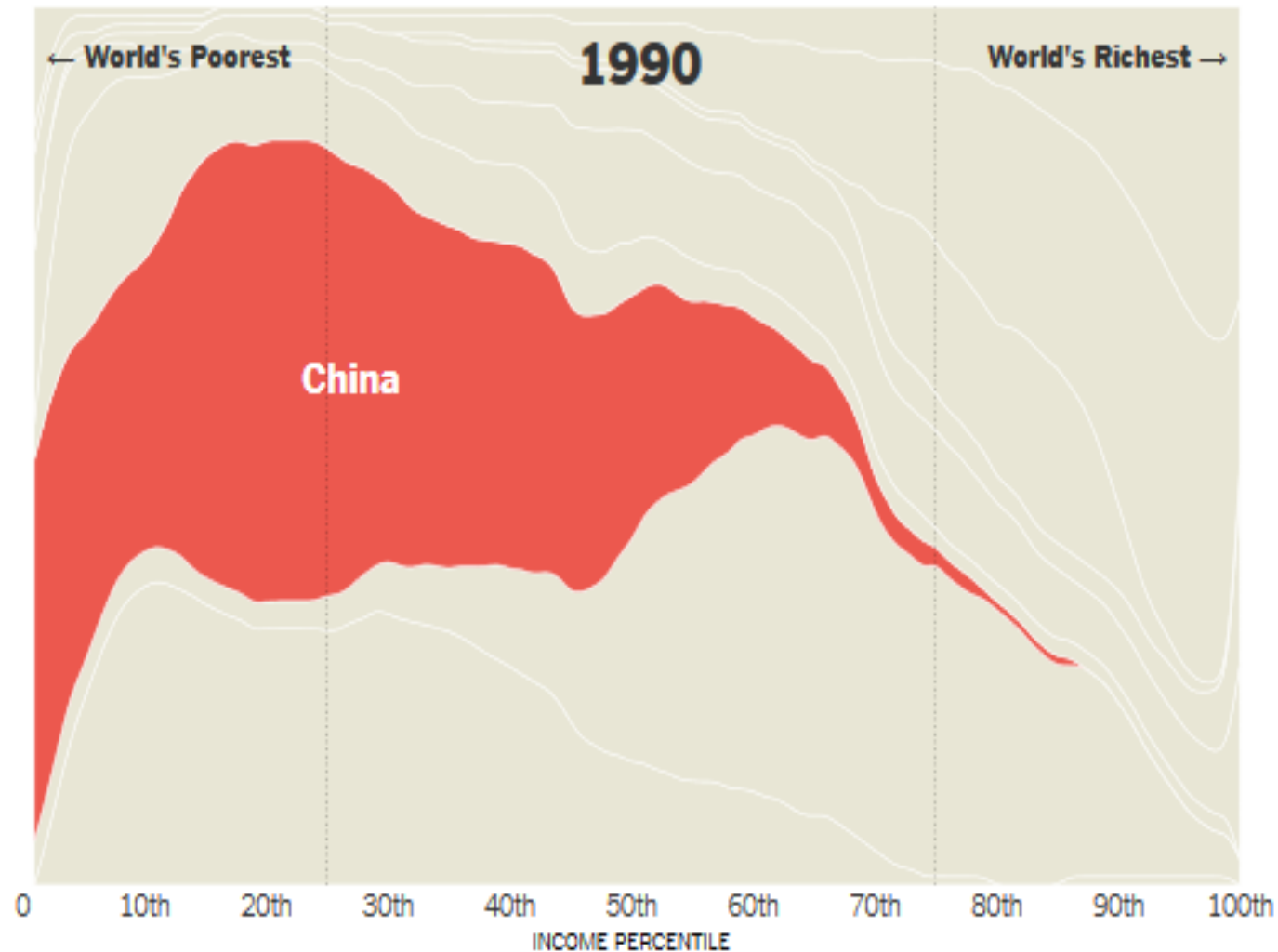
Intended Outcome:

- Short term: no deal or temporary truce on trade deal
- Medium term: de-couple economies, force supply chain relocation out of China, undermine China's economy and tech sector
- Long term: era of new cold war

Xi's Vision and Legitimacy

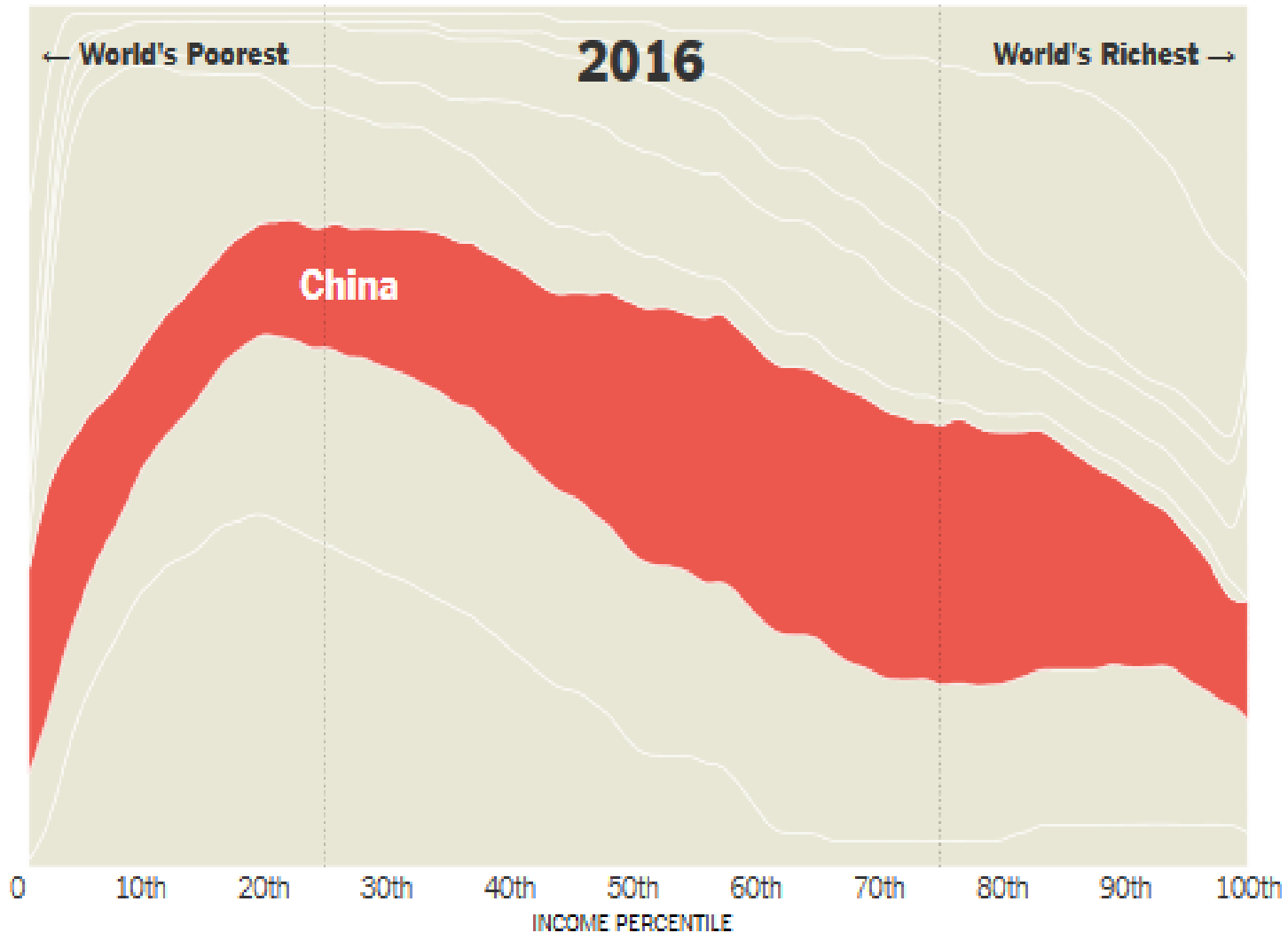
- **Domestic vision: Made in China 2025**
- **International vision: One Belt One Road**
- **Princeling legacy and Party dominance**
- **Nationalism: Make China Great Again**
- **Implications for trade and tech war compromise**

China Used to Make Up Much of the World's Poor. Now it Makes Up Much of the World's Middle Class.



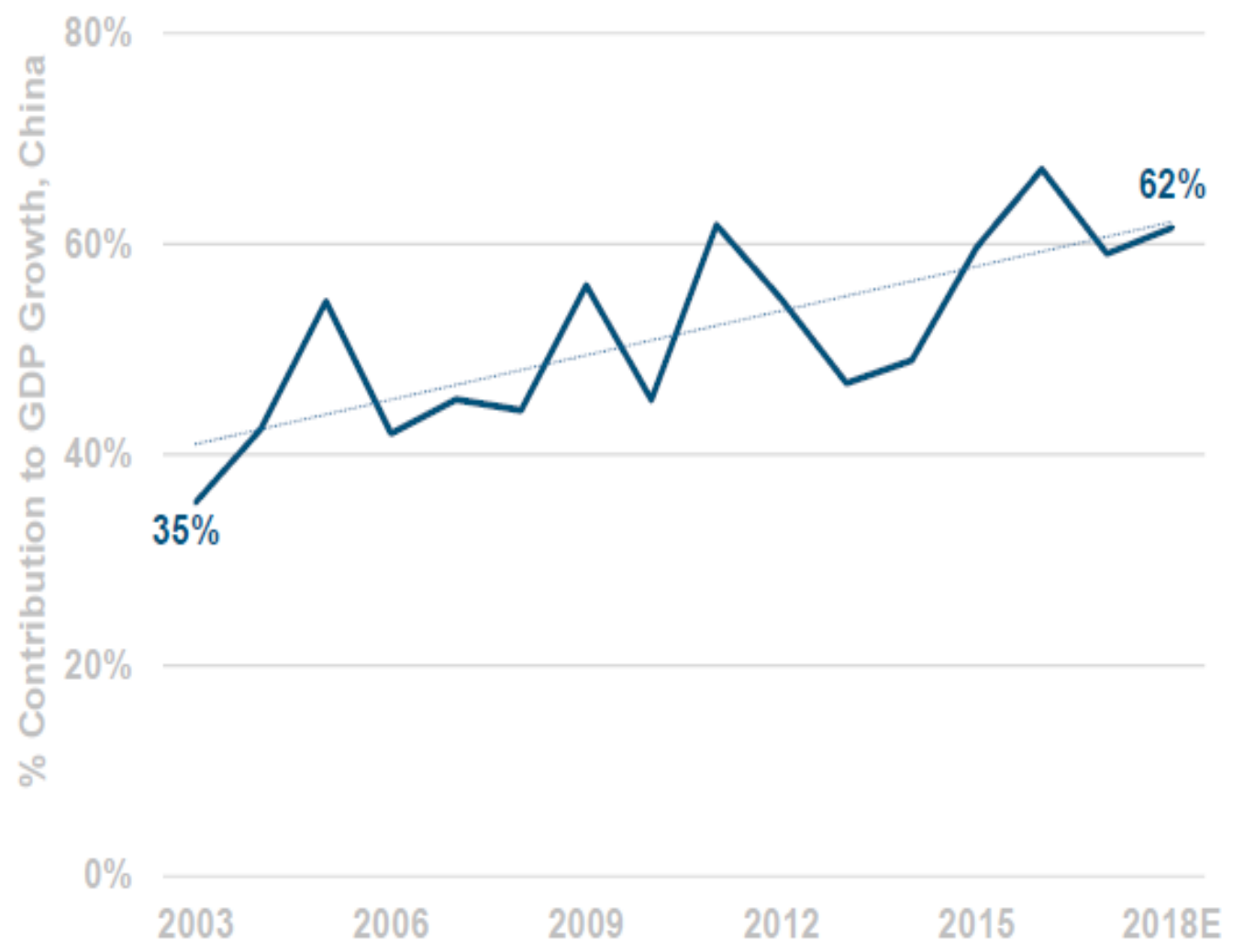
Source: World Inequality Database

China Used to Make Up Much of the World's Poor. Now it Makes Up Much of the World's Middle Class.



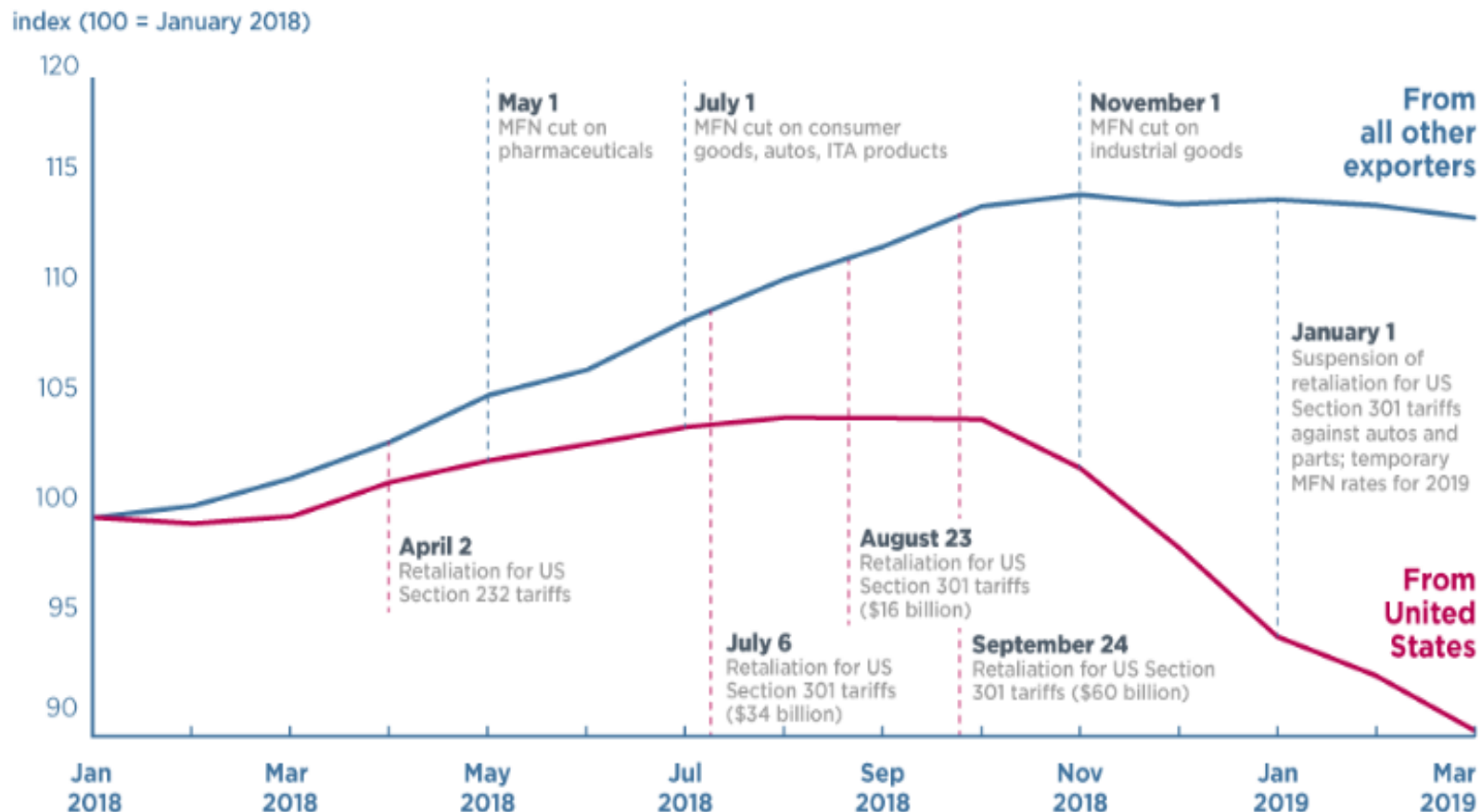
Source: World Inequality Database

China Domestic Consumption Contribution to GDP Growth



Source: CEIC

China's Imports from the United States have Declined much more Rapidly than Imports from Elsewhere During the Trade War



ITA = Information Technology Agreement; MFN = most favored nation

China's Average Tariff Rate is Climbing on US Goods and Falling for the Rest of the World

2018

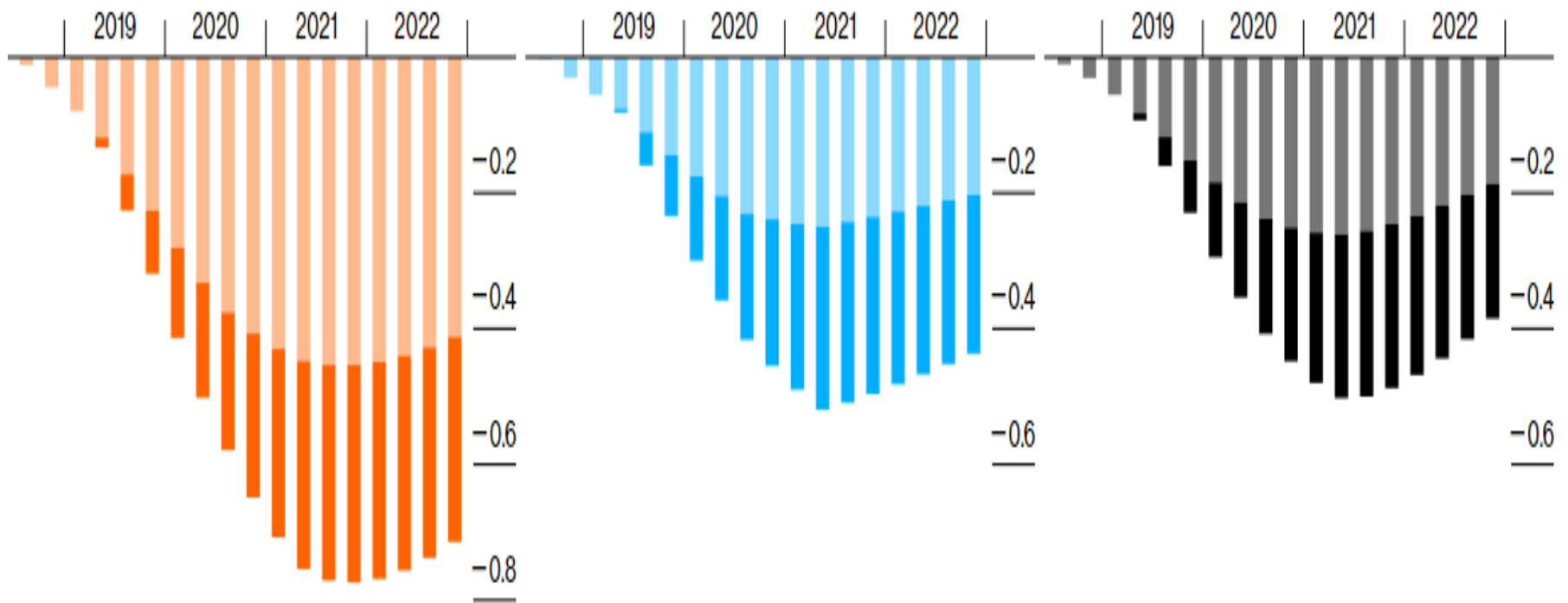
2019



Escalation to 25% Tariffs on All Bilateral Trade

Percent impact on quarterly gross domestic product

China U.S. World

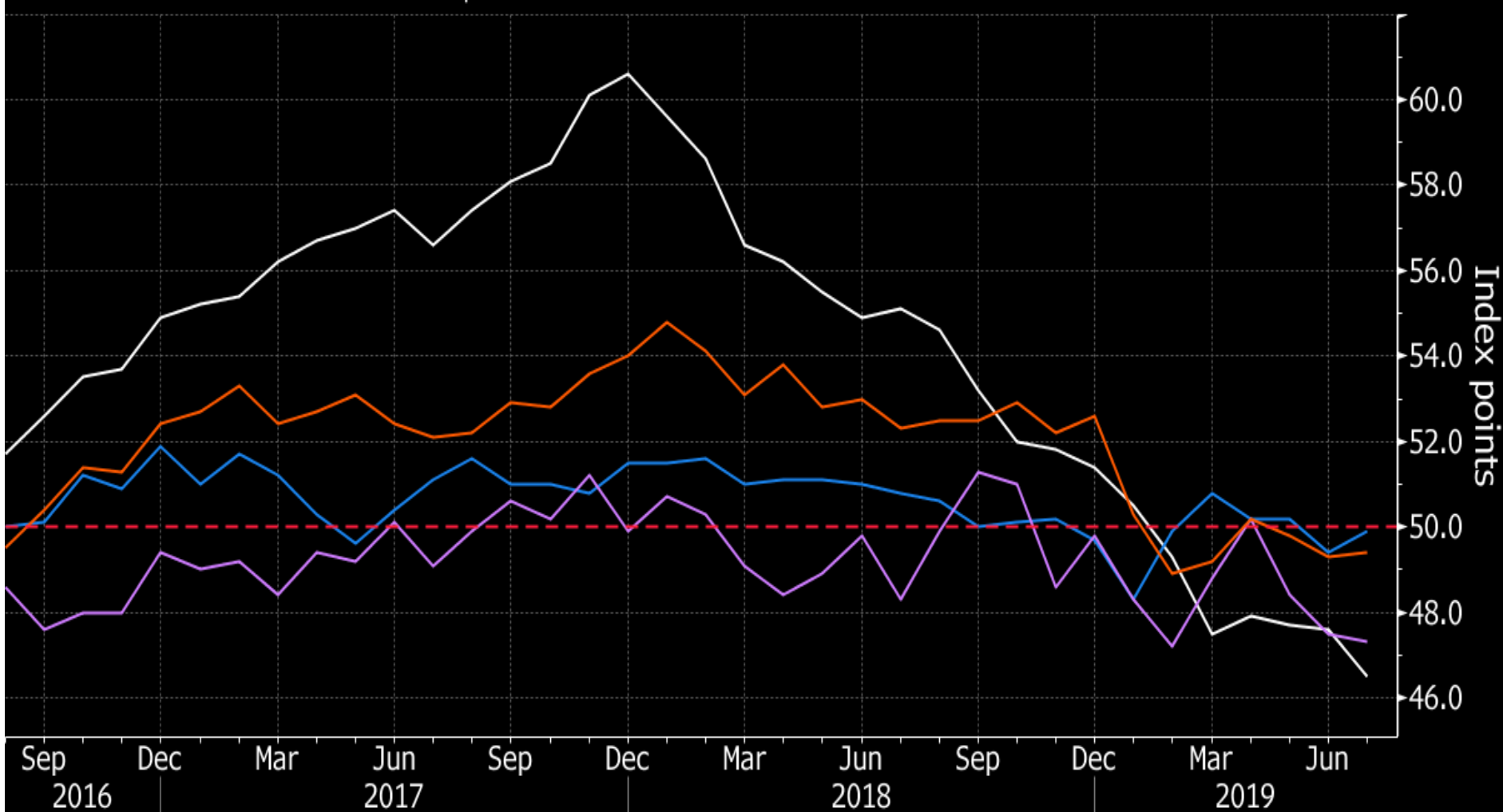


Source: Bloomberg Economics' modeling

Gloomy Outlook

Manufacturers across Asia and Europe are hurt by trade woe and weak demand

■ Euro area ■ China ■ South Korea ■ Japan

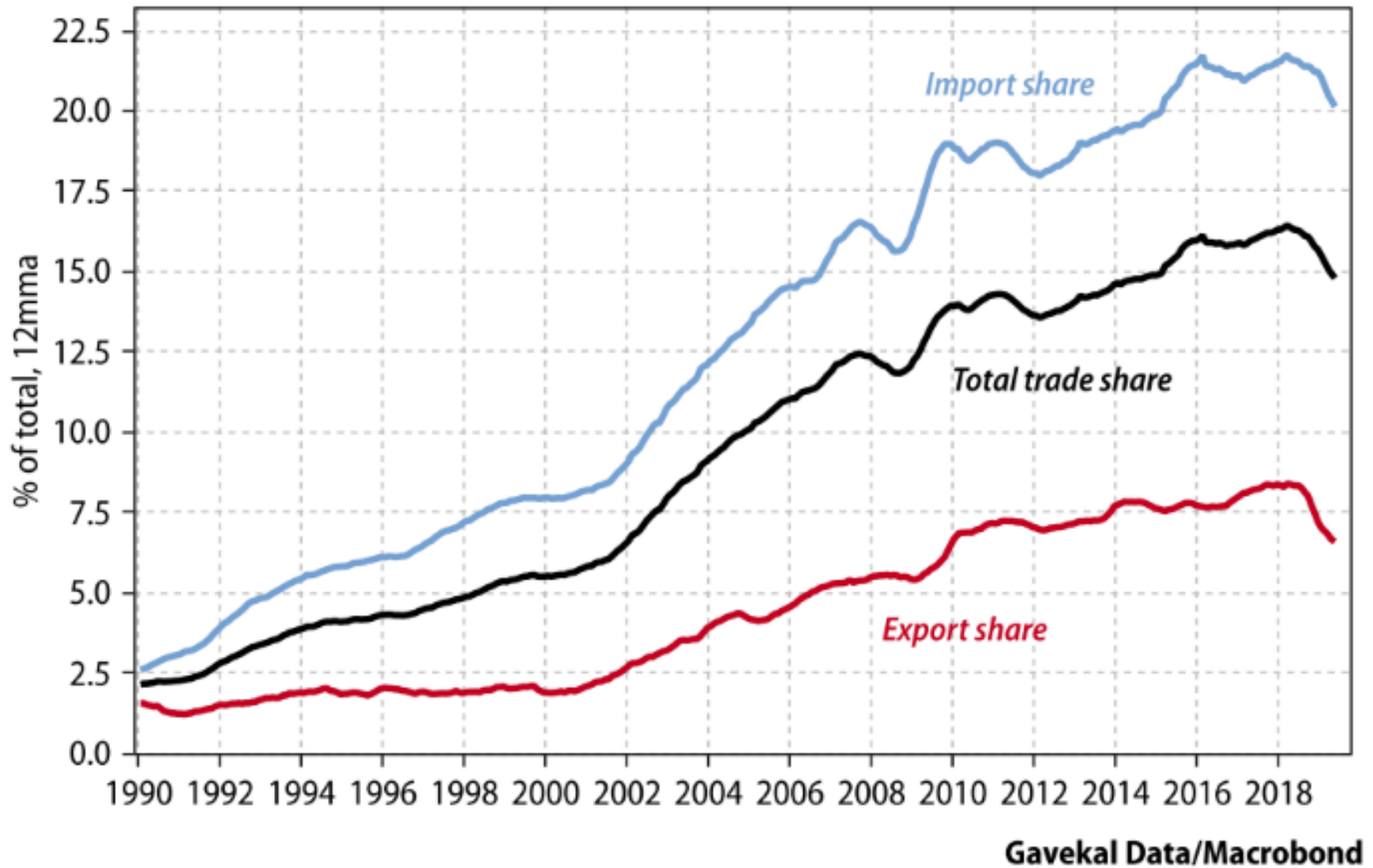


Source: IHS Markit

Bloomberg

The decoupling begins

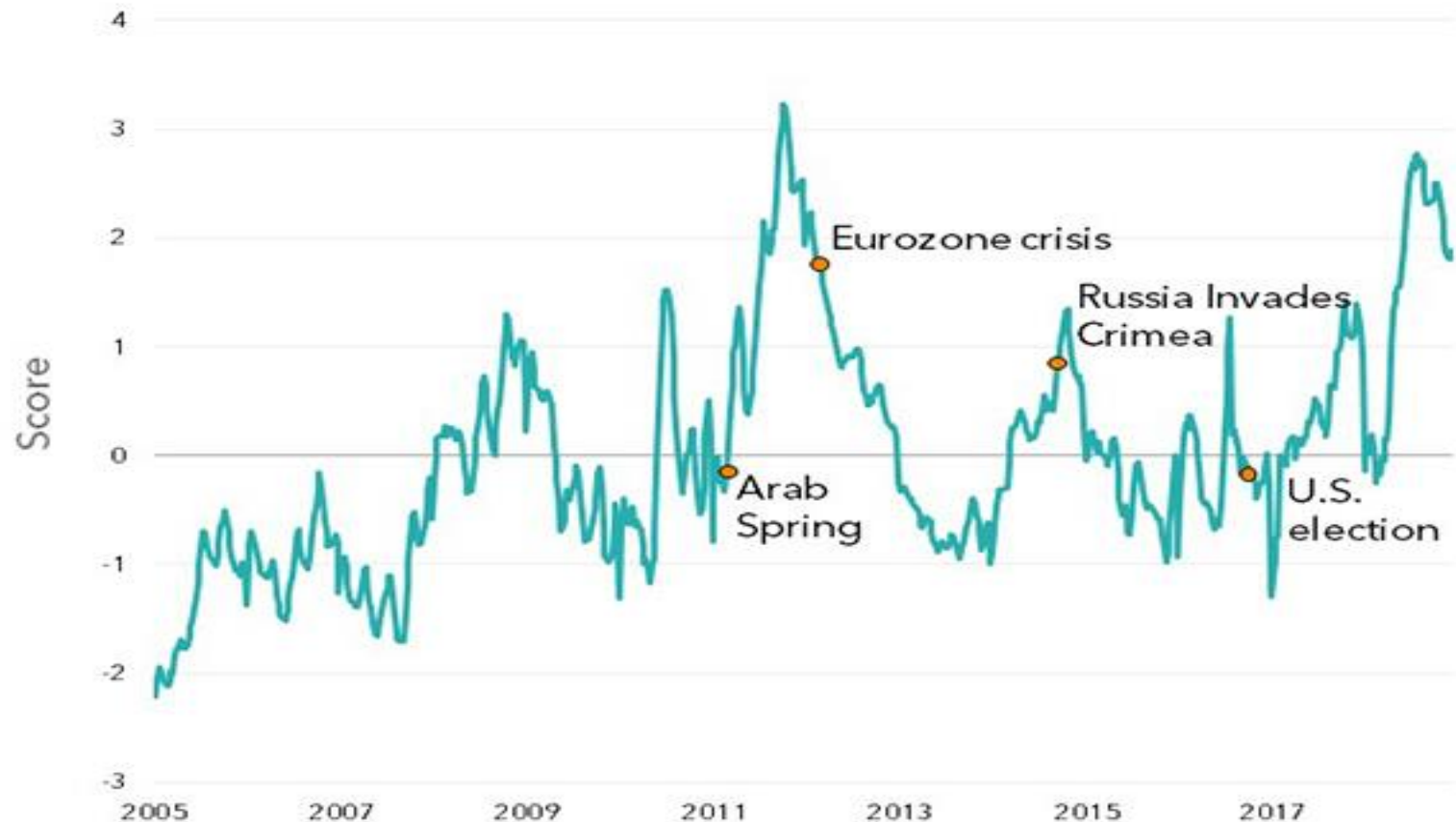
US goods trade with China as share of total





Source: IMF

BlackRock geopolitical risk index

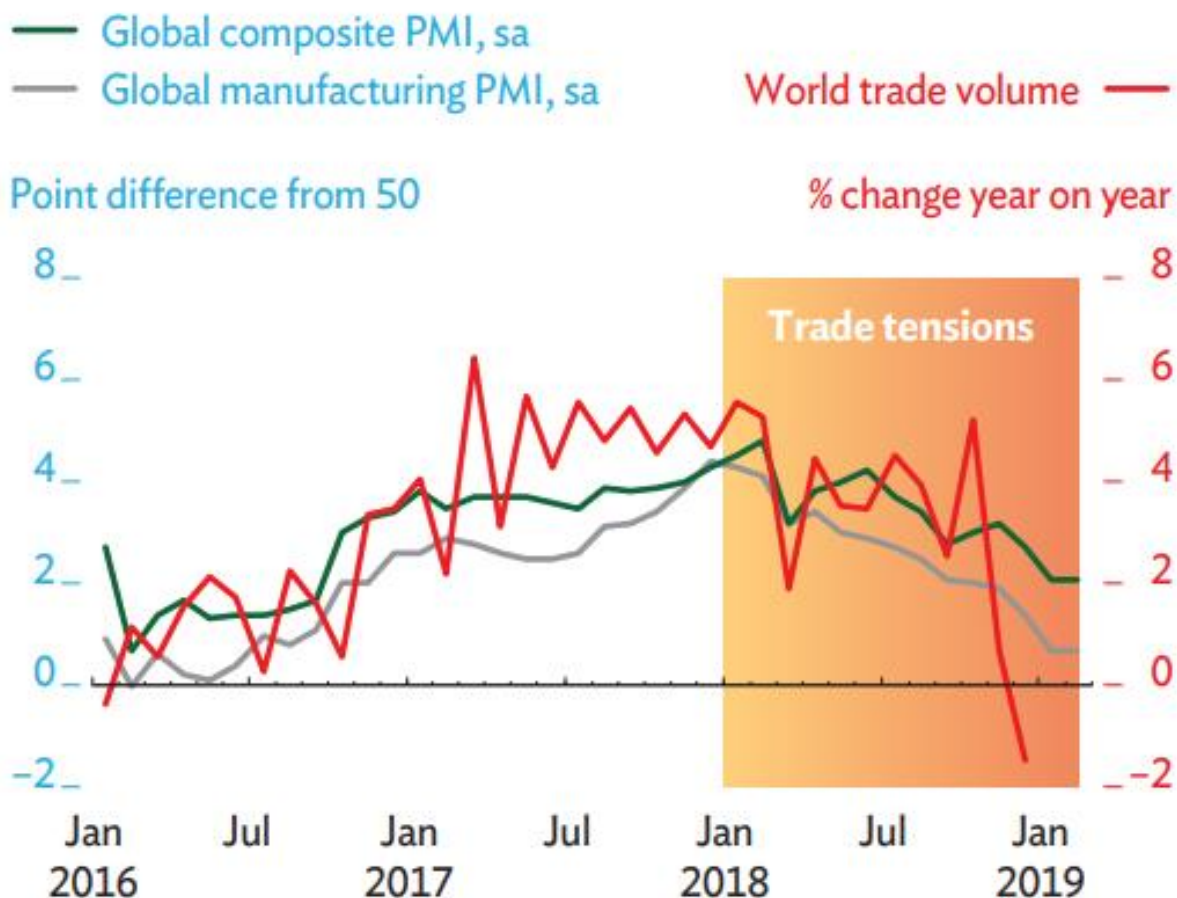


Source: BlackRock Investment Institute, with data from Thomson Reuters. Data as of December 7, 2018.

Notes: We identify specific words related to geopolitical risk in general and to your top 10 risks. We then use text analysis to calculate the frequency of their appearance in the Thomson Reuters Broker Report and Dow Jones Global Newswire databases as well as on Twitter. We then adjust for whether the language reflects positive or negative sentiment, and assign a score. A zero score represents the average BGRI level over its history from 2003 up to that point in time. A score of one means the BGRI level is one standard deviation above the average. We weigh recent readings more heavily in calculating the average. We recently improved the methodology of our global BGRI, tying it closely to our other risks and updating the keywords. The chart may look different from previous updates as a result.

Global activity indicators

World trade weakened in 2018 as global economic activity slowed and trade tensions between the US and the PRC escalated.

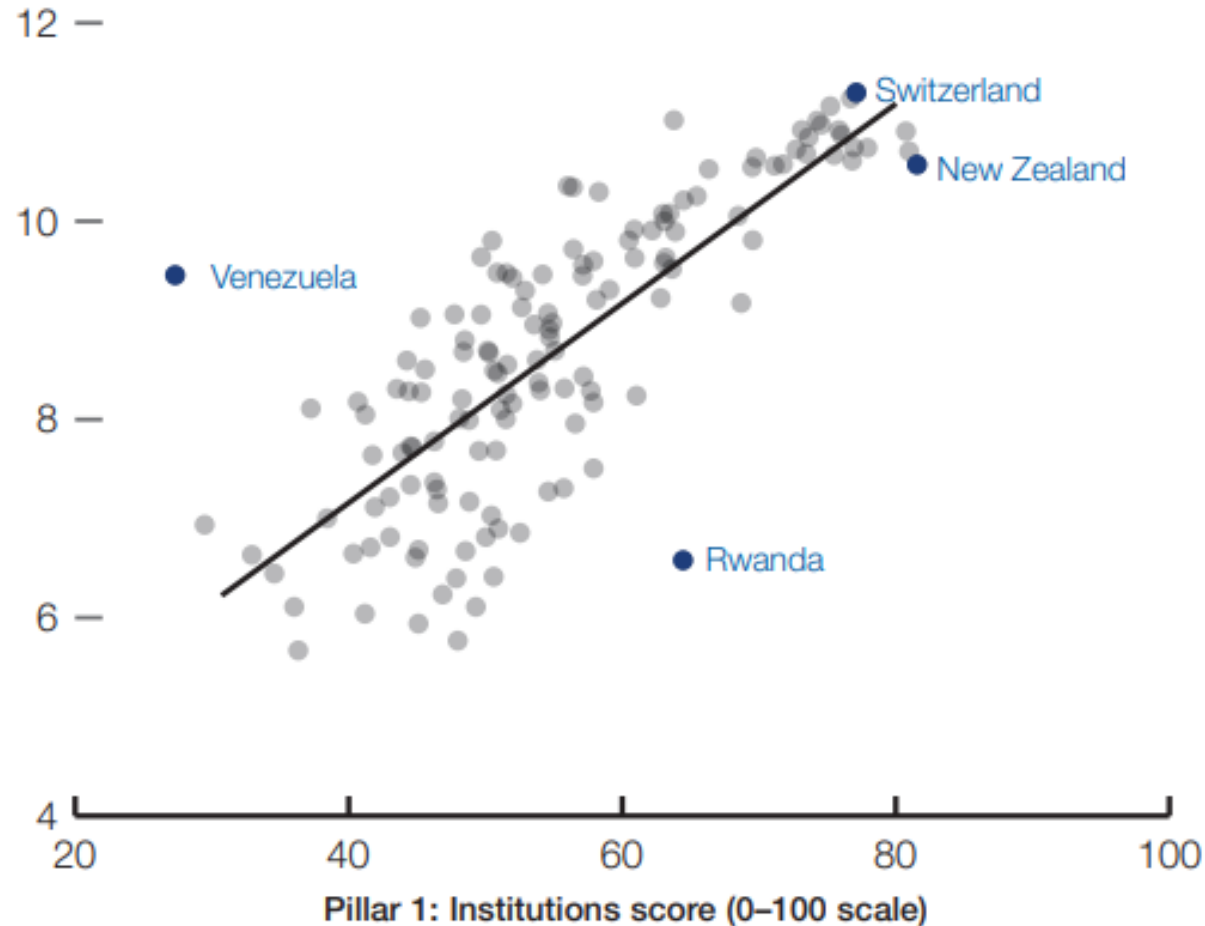


Source: ADB

The rising importance of soft infrastructure in international competitiveness

Institutional strength and income

GNI per capita (log scale, US\$, 2017)



Sources: World Economic Forum analysis; World Bank, 2018; national sources.

Note: N=140, R²= 0.63.

Soft infrastructures
















- **People and businesses expectations depend on the levels of trust in society; on whether public institutions are capable of ensuring a basic level of security and enforcing property rights, and are characterized by transparency, efficiency, and checks and balances; and on the strength of corporate governance standards and prevailing business ethics.**
- **The institution indicator conceptualizes institutions broadly as including formal, legally binding constraints—rules, laws, constitutions and associated enforcement mechanisms—and informal constraints, such as norms of behavior, conventions and self-imposed codes of conduct.**

Rule of Law Index

- **The World Justice Project (WJP) Rule of Law Index 2019 is the latest report in an annual series measuring the rule of law based on the experiences and perceptions of the general public and in-country experts worldwide.**
- **The WJP Rule of Law Index 2019 presents a portrait of the rule of law in 126 countries by providing scores and rankings based on eight factors: constraints on government powers, absence of corruption, open government, fundamental rights, order and security, regulatory enforcement, civil justice, and criminal justice.**







Rule of Law Around the World by Region

East Asia & Pacific

Country/Jurisdiction	Regional Rank	Overall Score*	Global Rank	Change in Overall Score*	Change in Global Rank†	Country/Jurisdiction	Regional Rank	Overall Score*	Global Rank	Change in Overall Score*	Change in Global Rank†
 New Zealand	1/15	0.82	8/126	0.00	▼1	 Indonesia	9/15	0.52	62/126	0.00	▲4
 Australia	2/15	0.80	11/126	0.00	▼1	 Thailand	10/15	0.50	76/126	0.00	▼1
 Singapore	3/15	0.80	13/126	0.00	0	 Vietnam	11/15	0.49	81/126	-0.01	▼2
 Japan	4/15	0.78	15/126	-0.01	▼1	 China	12/15	0.49	82/126	-0.01	▼2
 Hong Kong SAR, China	5/15	0.77	16/126	0.00	0	 Philippines	13/15	0.47	90/126	0.00	▲3
 Republic of Korea	6/15	0.73	18/126	0.01	▲2	 Myanmar	14/15	0.42	110/126	0.00	0
 Malaysia	7/15	0.55	51/126	0.02	▲5	 Cambodia	15/15	0.32	125/126	0.00	0
 Mongolia	8/15	0.55	53/126	0.00	▲1						

Source: World Bank

South Asia

Country/Jurisdiction	Regional Rank	Overall Score*	Global Rank	Change in Overall Score*	Change in Global Rank†	Country/Jurisdiction	Regional Rank	Overall Score*	Global Rank	Change in Overall Score*	Change in Global Rank†
 Nepal	1/6	0.53	59/126	0.00	▲2	 Bangladesh	4/6	0.41	112/126	0.00	▲1
 Sri Lanka	2/6	0.52	63/126	0.00	▼1	 Pakistan	5/6	0.39	117/126	0.00	▼1
 India	3/6	0.51	68/126	-0.01	▼3	 Afghanistan	6/6	0.35	123/126	0.00	0

Source: World Bank

Singapore's sustainable competitive strength is in soft infrastructures

Key Indicators on Institutions

- **conflict of interest regulations**
- **strength of auditing and accounting standard**
- **shareholder governance**
- **intellectual property protection**
- **corruption free environment**
- **efficiency of legal framework in settling disputes**
- **future orientation of government**

Ranking of Competitiveness Out of 140 countries

	Spore	China	M'sia	Indo	Thai	Phil	Viet
Institutions	3	65	24	48	60	101	94
Infra	1	29	32	71	60	92	75
ICT	4	26	32	50	64	67	95
Skills	20	63	24	62	66	67	97
Innovation	14	24	30	68	51	67	82

Source: World Competiveness Report

China

- **Infrastructures: 29/140**
- **ICT adoption: 26/140**
- **Innovation capability: 24/140**
- **Institutions: 65/140**
- **Weak in social capital, shareholder governance, conflict of interest regulations, strength of auditing and accounting standard, intellectual property protection, corruption, press freedom, legal framework**

Singapore

- **Infrastructures: 1/140**
- **ICT adoption: 4/140**
- **Innovation capability: 14/140**
- **Institutions: 3/140**
- **Strong in conflict of interest regulations, strength of auditing and accounting standard, intellectual property protection, corruption free environment, efficiency of legal framework in settling disputes, future orientation of government**

Indonesia

- **Infrastructures: 71/140**
- **ICT adoption: 50/140**
- **Innovation capability: 68/140**
- **Institutions: 48/140**
- **Weak in road, seaport, electricity supply, water, airport and services, internet subscription, mean year of schooling, time to start business, cost of starting business, innovation capability, trade tariffs, non-tariff barriers, corruption, strength of auditing and accounting standard, intellectual property protection, press freedom**

Malaysia

- **Infrastructures: 32/140**
- **ICT adoption: 32/140**
- **Innovation capability: 30/140**
- **Institutions: 24/140**
- **Weak in corruption, press freedom, water, electrification rate, railroad density, broadband internet subscription, mean year of schooling, tariff barriers, time to start a business, cost to start business**

Vietnam

- **Infrastructures: 75/140**
- **ICT adoption: 95/140**
- **Innovation capability: 82/140**
- **Institutions: 94/140**
- **Weak in road, railroad, air transport, seaport, electricity supply, water, broadband internet, mean year of schooling, social capital, conflict of interest regulations, strength of auditing and accounting standard, intellectual property protection, corruption, press freedom, legal framework**

Thailand

- **Infrastructures: 609/140**
- **ICT adoption: 64/140**
- **Innovation capability: 51/140**
- **Institutions: 60/140**
- **Weak in social capital, shareholder governance, conflict of interest regulations, strength of auditing and accounting standard, intellectual property protection, corruption, press freedom, legal framework**

Ethnic, Linguistic and Religious Fractionalization

Ethnic, Linguistic and Religious Fractionalization

Country	Average of Ethnic, Linguistic and Religious Fractionalization Index
China	0.31
India	0.52
Indonesia	0.58
Malaysia	0.62
Myanmar	0.41
Philippines	0.46
Singapore	0.48
Si Lanka	0.46
Thailand	0.45
US	0.62
Vietnam	0.33

Source: Alesina and Ferrara: Journal of Economic Literature 2016

PM Lee Hsien Loong on Singapore's Multiracialism

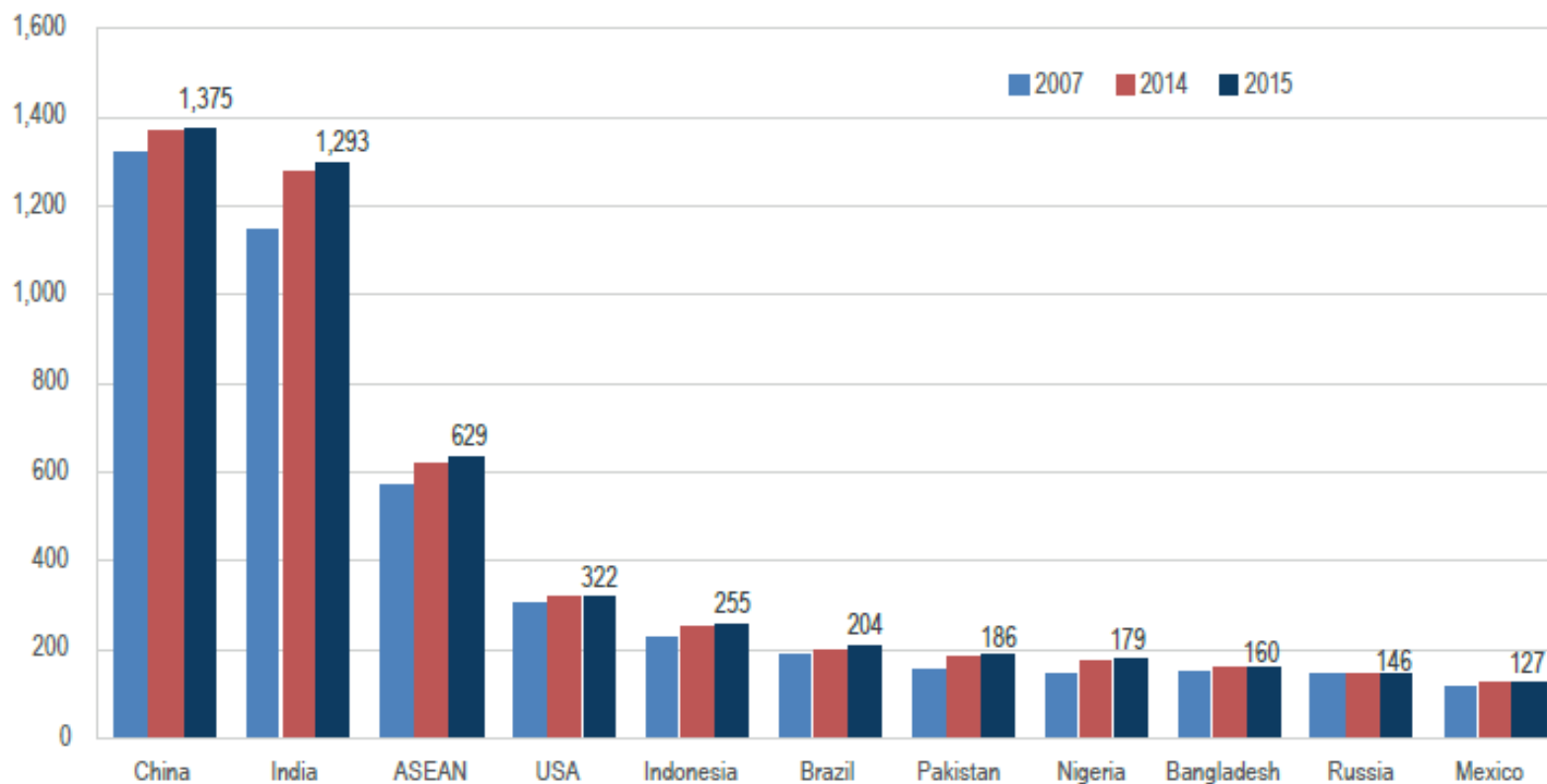
- **"We created structures - constitutional, political, social - that discouraged intolerance, curbed chauvinism, and nudged social behavior in positive ways, long before nudging became intellectually fashionable."**
- **"I hope future generations of Singaporeans will cherish this harmony, realize how precious it is, and strengthen it further. We must never allow religion to be weaponized, or used as a front for other conflicts,"**

**Only acceptable and viable hub in
the Asia Pacific region**

1 ASEAN in the Global Economy

1.1 Total Population

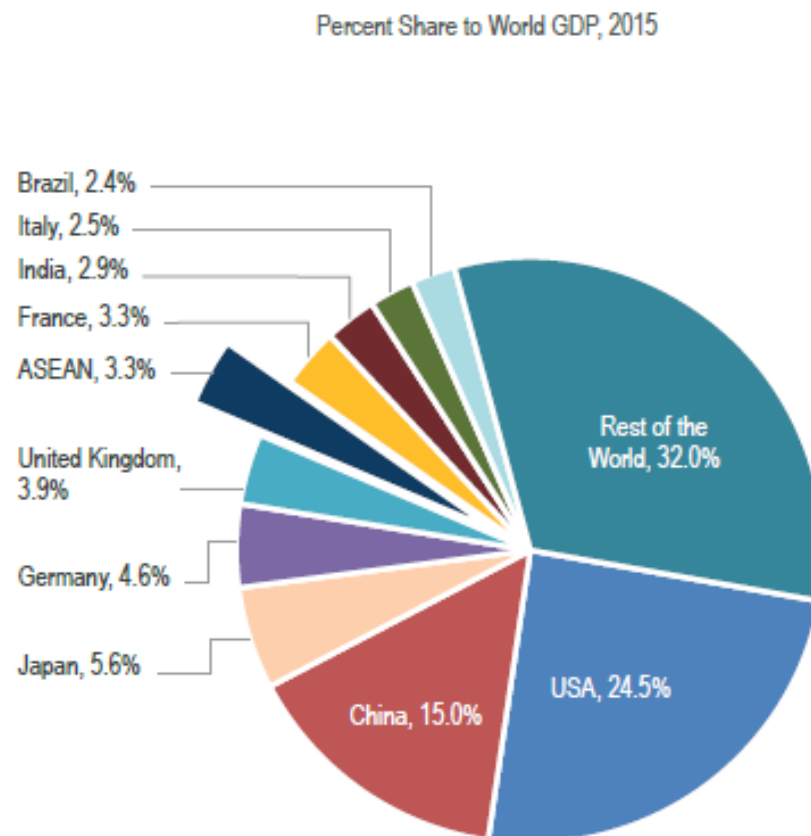
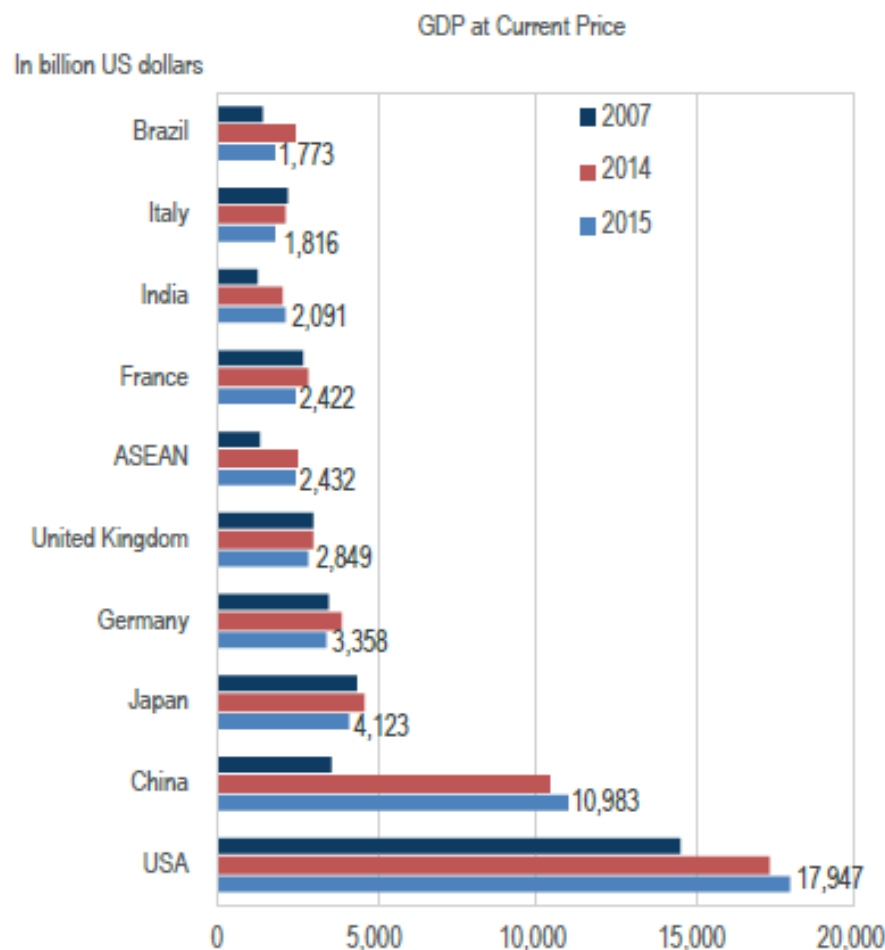
In million persons



Source: ASEAN Secretariat and IMF World Economic Outlook April 2016.

ASEAN in the Global Economy

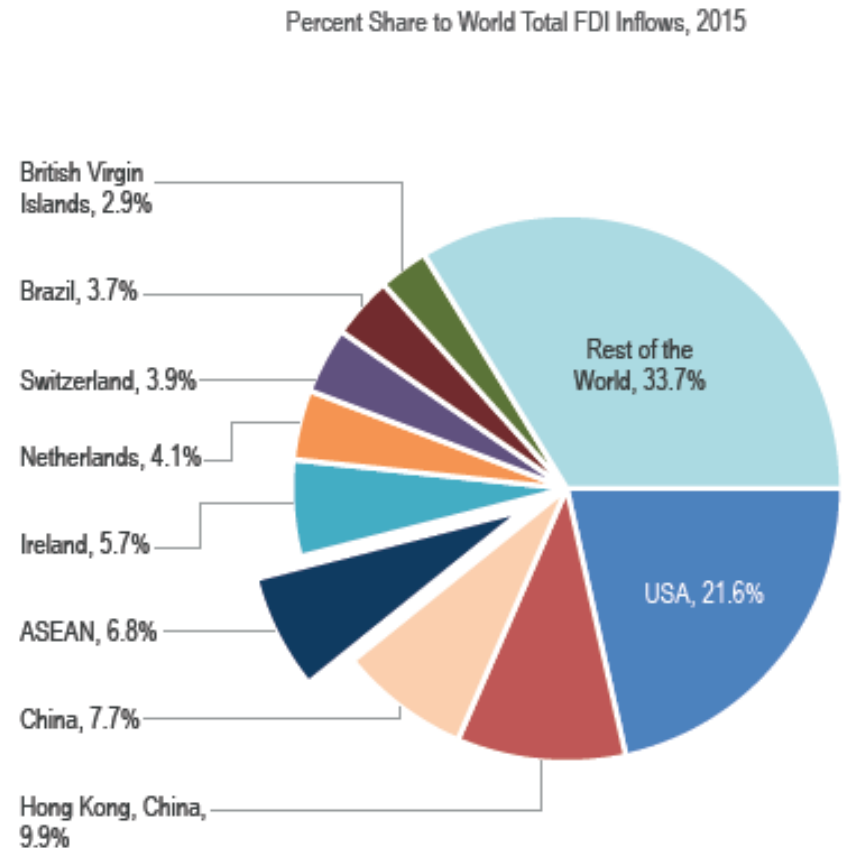
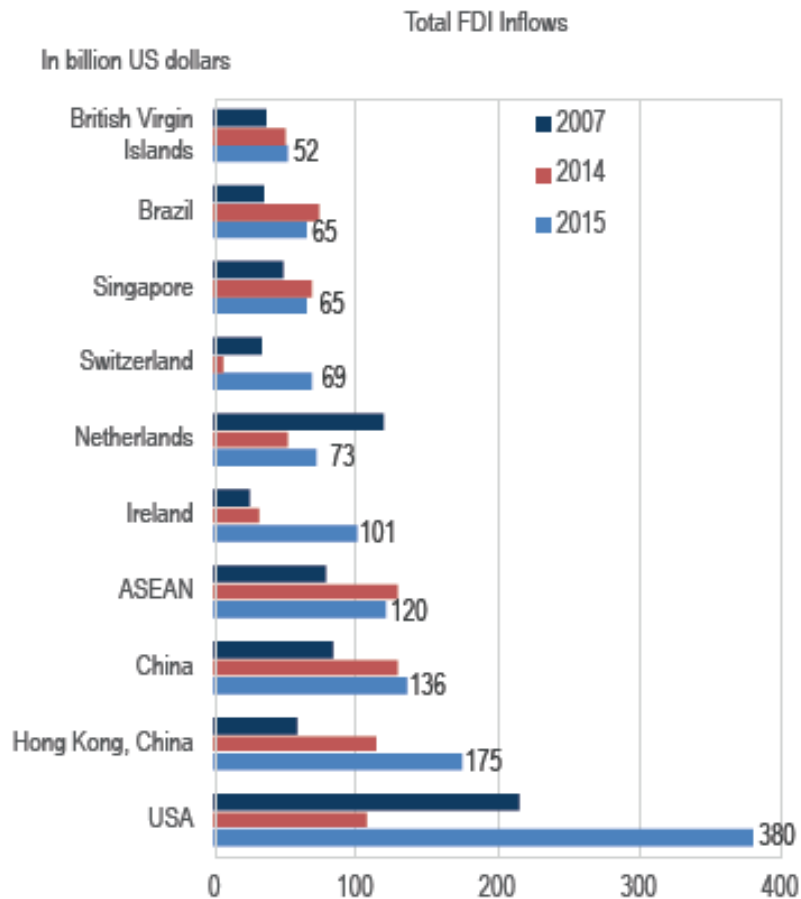
Gross Domestic Product (GDP), at current price



Source: ASEAN Secretariat and IMF World Economic Outlook April 2016.

ASEAN in the Global Economy

Foreign Direct Investment (FDI)



Source: ASEAN Secretariat and UNCTAD.

Strategic Role of Singapore

- **Rising tension between US and China**
- **Dynamic Asia Pacific region needs a neutral and efficient regional hub city**
- **Singapore as the ASEAN centre for regional logistics, RHQ, business services, insurance, infrastructural finance and project development, air hub, sea hub**
- **Singapore as an open and inclusive economy: participation from US, EU, China, Japan, India and ASEAN**
- **Singapore has deep business and personal network and cultural understanding on ASEAN countries**
- **China's AIIB and BRI need to be inclusive to succeed**

Number of Regional Headquarters in Hong Kong and Singapore

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will help shape future changes in economic and spatial structure.

