

ECONOMIC OUTLOOK FOR SINGAPORE AND ASIA

ESS Annual JC Seminar 2010

8 May 2010

Manu Bhaskaran
Vice-President, Economic Society of Singapore

IN A NUTSHELL

Short term:

- Strong recovery in 2010

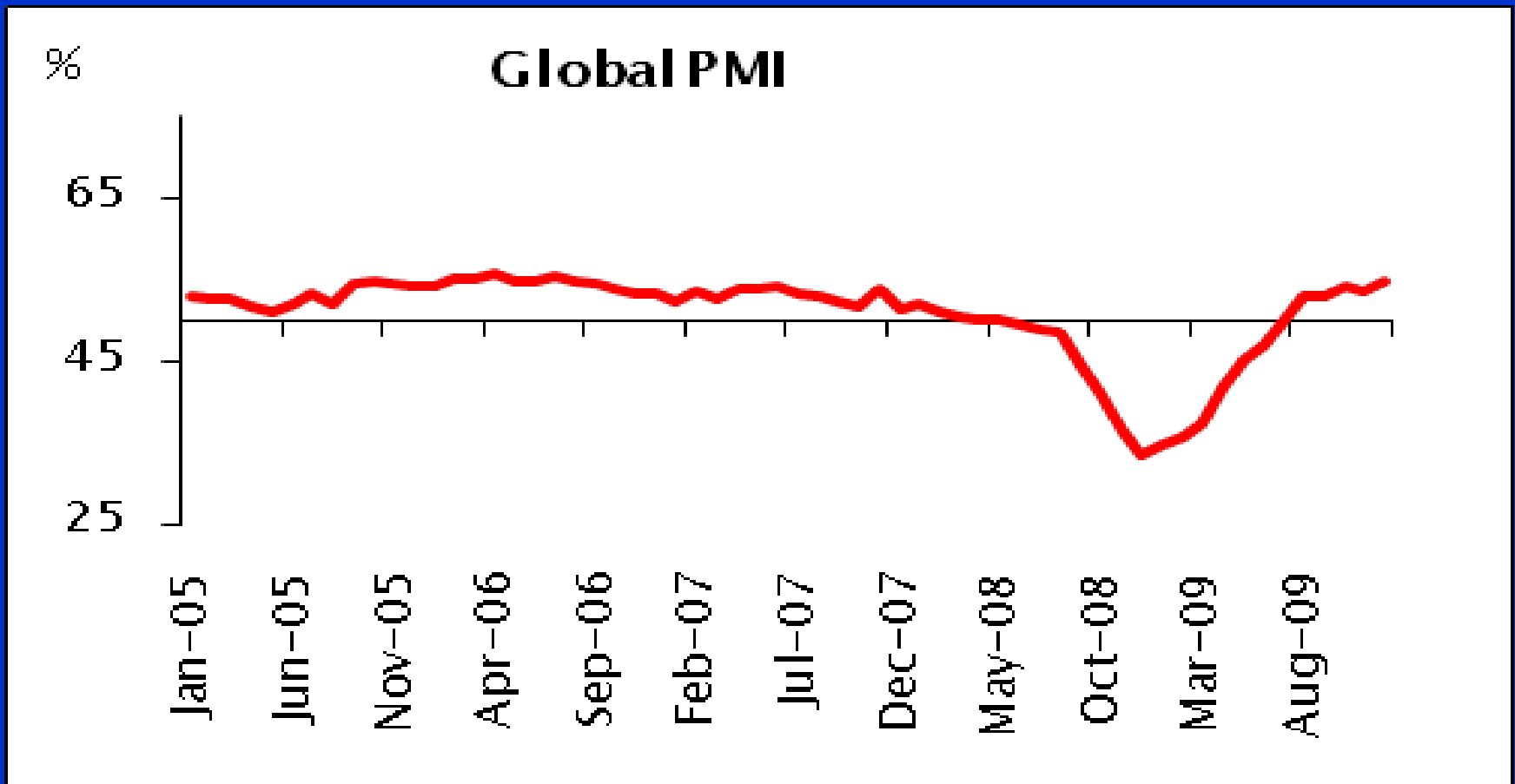
Longer term

- Global environment – new landscape
- Regional risks will rise
- Need to build resilience

THE SHORT TERM OUTLOOK: 2010–2011

GLOBAL INDICATORS REBOUND

The global recession is over

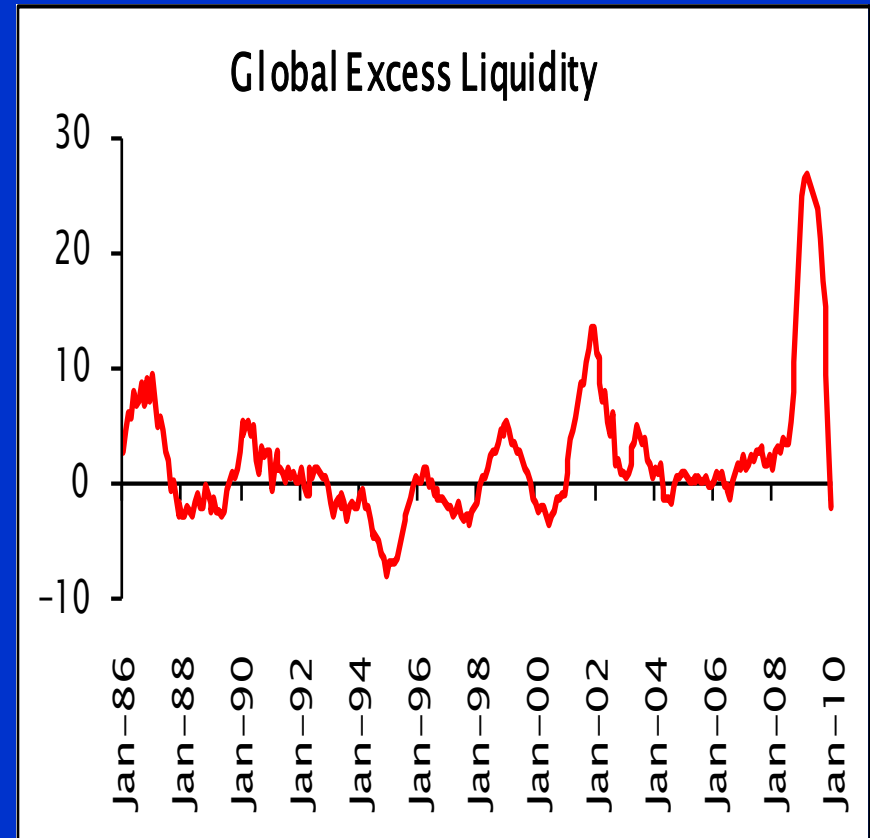
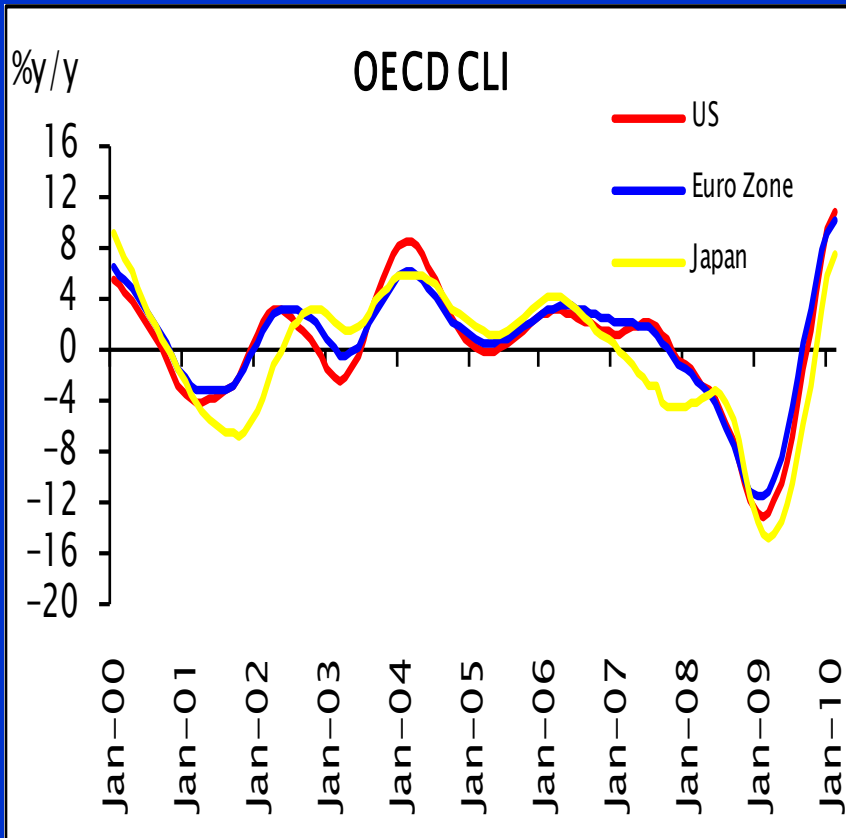


SHORT TERM LOOKS GOOD

... but is it sustainable?

- OECD lead indicators → bottom
- Liquidity a key driver
- Huge dependence on loose policy
 - Which cannot be maintained long
 - Fiscal: public debt concerns
 - Monetary: inflation or currency concerns

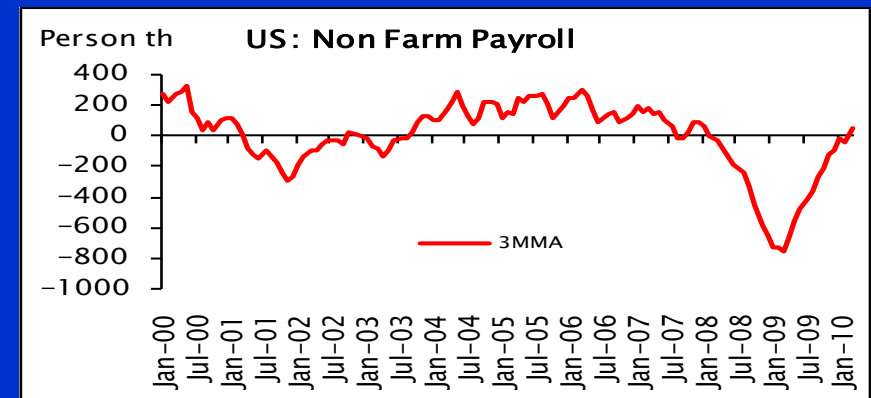
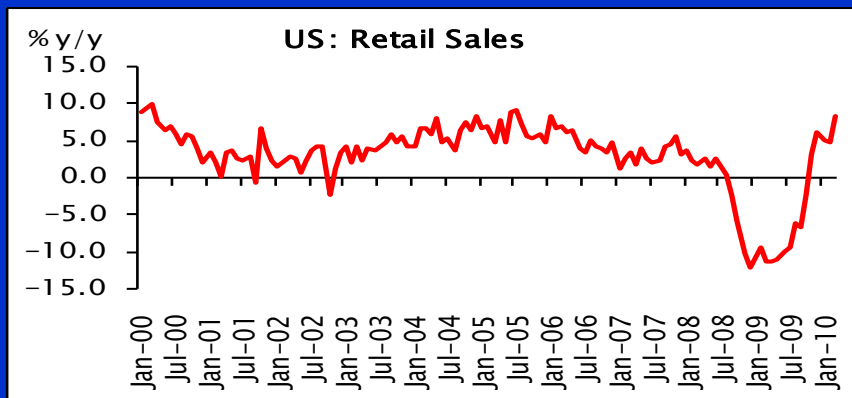
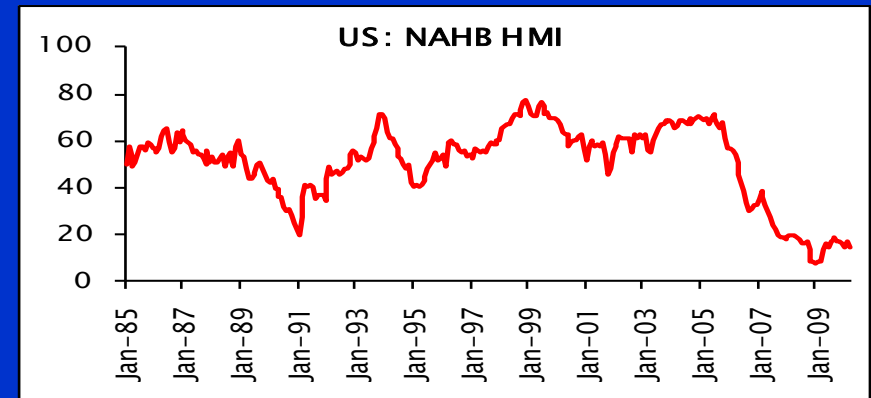
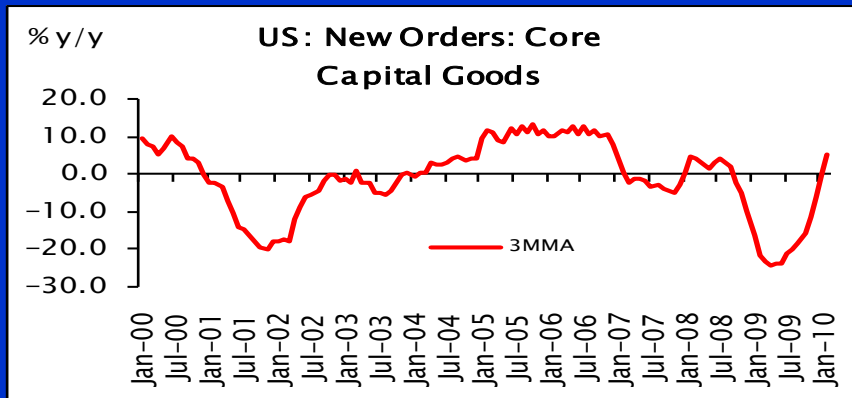
GLOBAL OUTLOOK: BOTTOMING



US: NOT OUT OF THE WOODS

Bottoming in investment and
uptick in retail sales

US housing: stuck at bottom;
Job declines ending



CHALLENGES IN SHORT TERM

Major stresses showing up

- **Sovereign debt crisis**
 - Greece: PIIGS and STUPIGS
- **Japan: risks of deflation**
 - Crisis has exposed deep structural flaws
- **US: flexible and adaptive but**
 - Fiscal time bomb, financial risks remain

SHORT TERM: THE BOTTOM LINE

Growth continues but ...

- **Policy will remain ultra loose**
 - Easy money and swift damage control
- **Recovery will continue**
 - No double dip into crisis
 - But 2H10 onwards will see slower growth
- **Lots of unexpected shocks**

**THE LONG TERM:
THE CHANGING
GLOBAL ECONOMIC
LANDSCAPE**

POST-CRISIS: A CHANGED WORLD

Slower global growth

- Higher oil prices
- Rising savings rate G3
- Higher cost of capital
- Fiscal tightening
- More regulation, taxes
- Protectionism
- Climate change costs

A CHANGED WORLD (2)

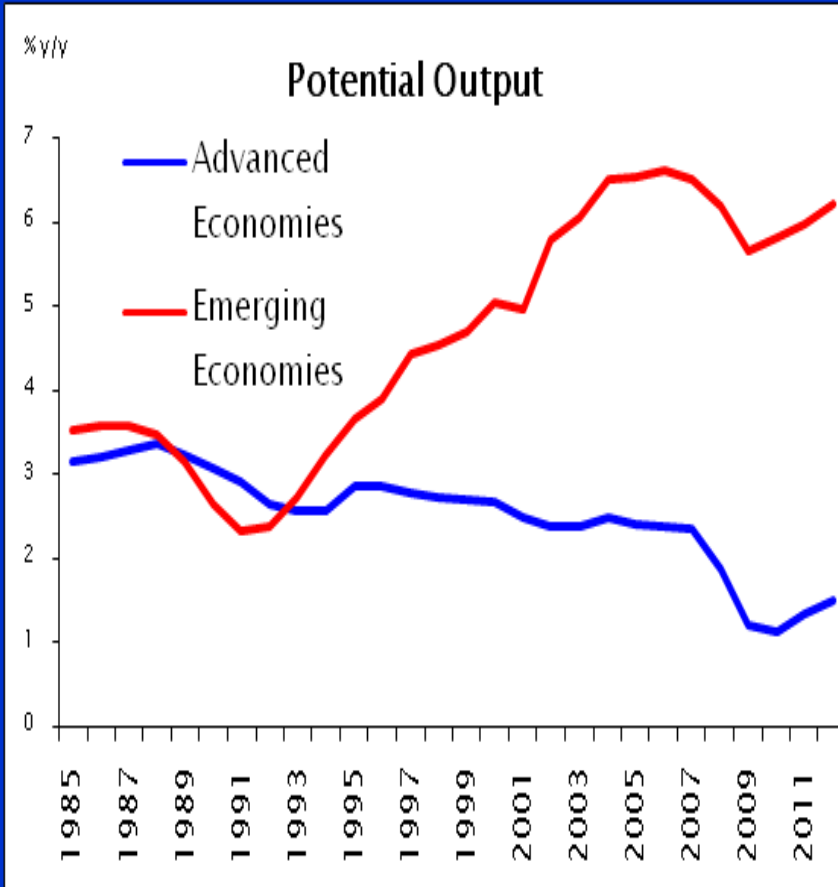
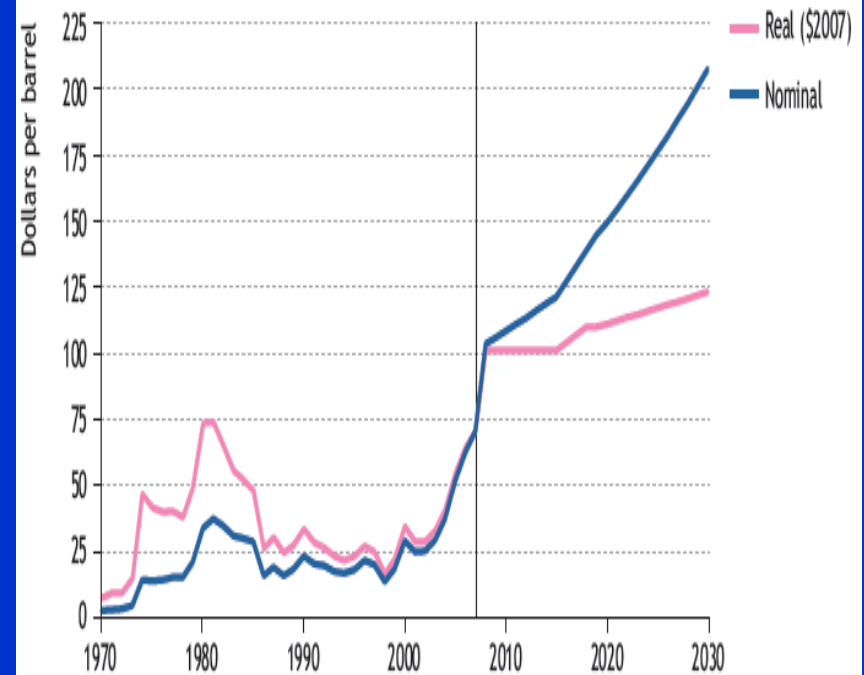


Figure 1.4 • Average IEA crude oil import price (annual data)



A CHANGED WORLD (3)

Major structural changes

- **Currency realignments**
 - USD: role and value down
- **Competitiveness shifts**
 - Rising currency, costs in Asia
- **Business trends**
 - Less outsourcing of manufacturing

**THE REGION:
RISKS EXIST
BUT
SO TOO ARE THE
OPPORTUNITIES**

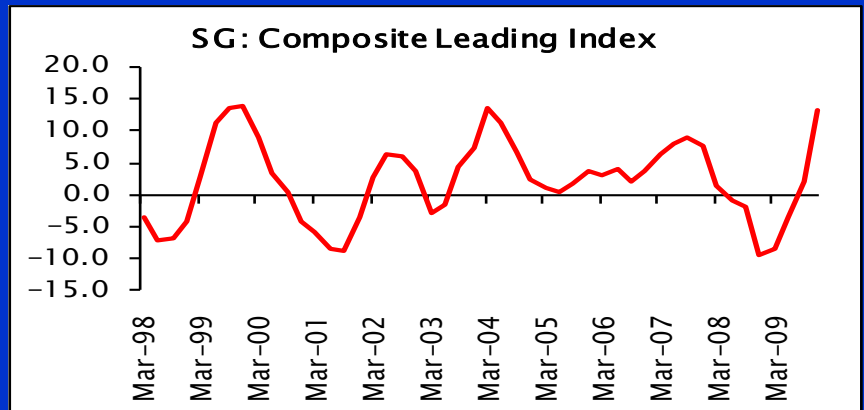
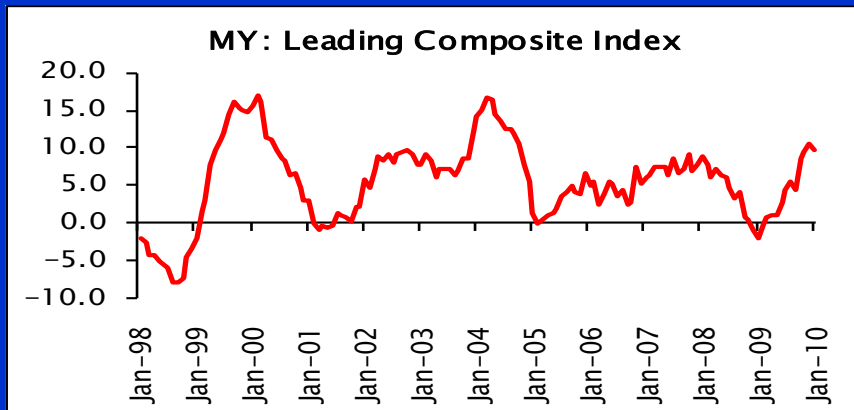
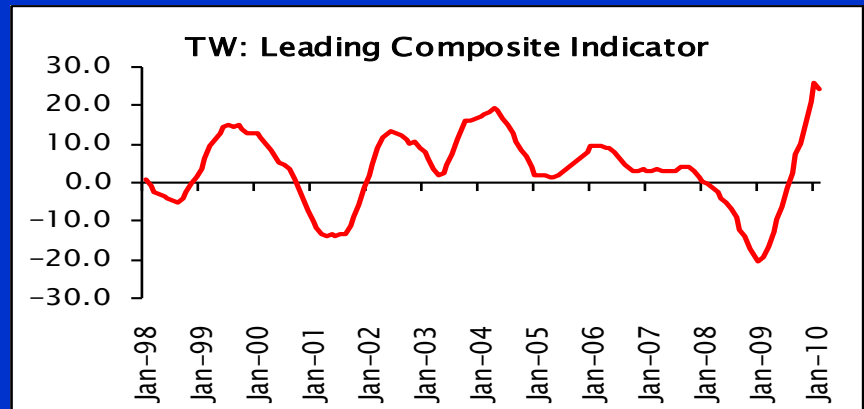
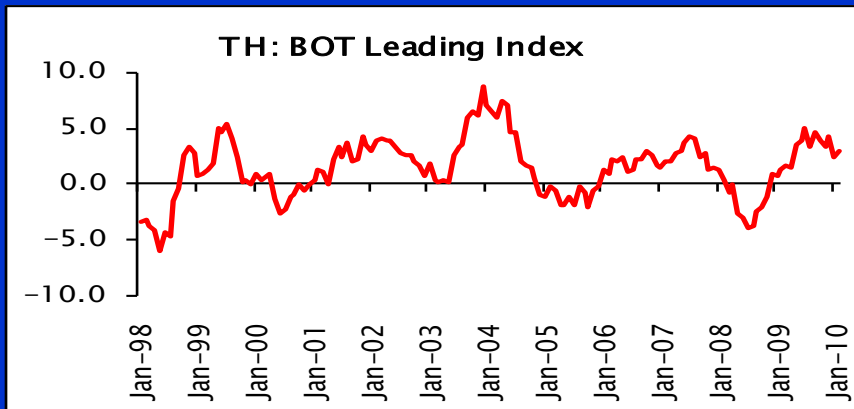
IMPACT ON ASIA

Loose policy + export recovery = upturn

- **Lead indicators turning up**
- **Domestic factors supportive**
 - Easy money reversing credit crunch
 - Fiscal spending
 - Business confidence snapped back
- **Exports: strengthening recovery**
- **Tourism: also up**
- **FDI: slow recovery, gathering steam**

LEAD INDICATORS UP

Recent regional lead indicators → strong recovery in 2010

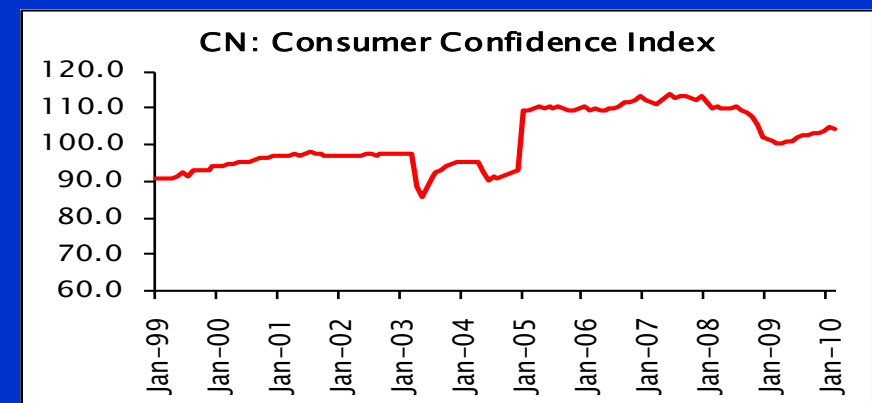
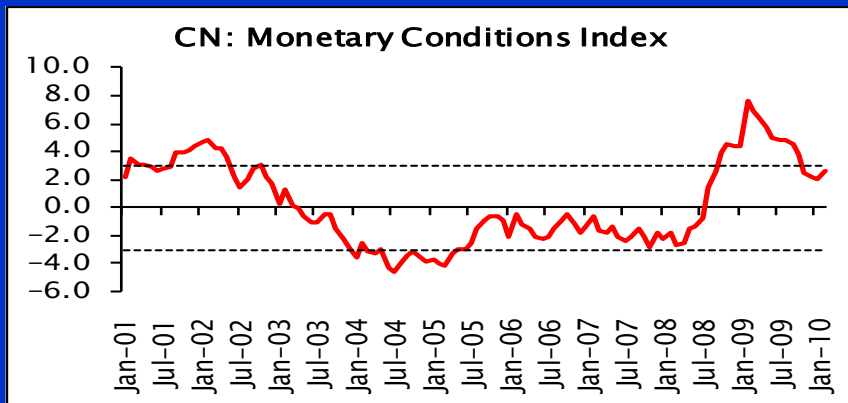
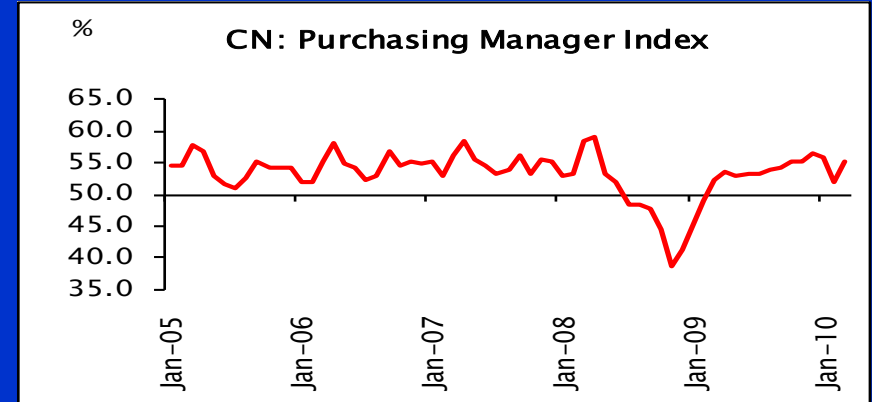
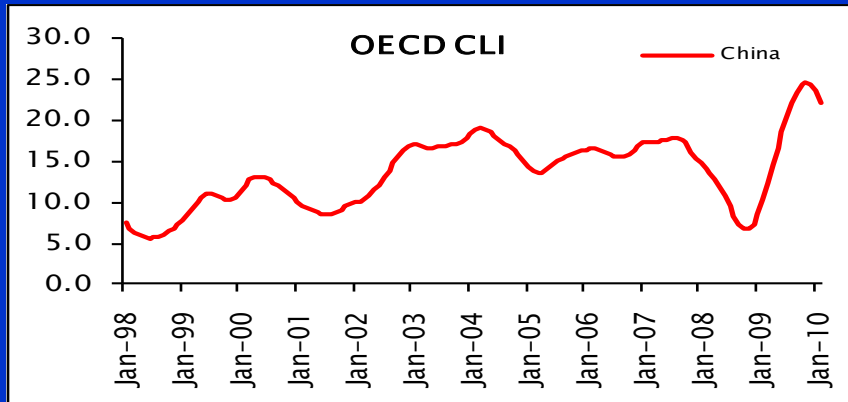


CAN CHINA SAVE US?

- **Policy actions – too successful!**
 - Loan growth jumped
 - Investment surging
- **Result: domestic demand up**
 - State sector growing sharply
 - Asset markets booming, near bubble
- **External economy turning around**
 - Export recovery now accelerating

CHINA: OUTLOOK

Recent indicators → stimulus super-effective



WILL CHINA SAVE US? (2)

Has China over-done stimulus?

- **Huge surge in lending poses risks**
 - Context: still-weak credit culture
 - Diversion of loans to speculation
- **Signs of bubbles**
 - Equities spiked up, volatile
 - Real estate up strongly
 - Massive speculation in copper etc
- **Risk if serious tightening is delayed**

OTHER EMERGING MARKETS

The story goes beyond China or BRICS

- **India: 8.5% growth over 30 years**
 - Manufacturing surge
 - Rural revolution
 - Messy but dynamic
- **Vietnam: near term risks, l/t upside**
- **Brazil, Turkey also rising**

MALAYSIA

Economy has strengths but ...

- **Private investment down since 1996**
 - Businesses going abroad
- **Incentive structure – degraded**
 - Rent-seeking dominates
- **Getting the basics right – mixed**
 - Fiscal: horrible – subsidies, rely on oil
 - Good planners and ideas ... but ...

INDONESIA – BRIGHT OUTLOOK

Not perfect but improving

- **Stability → lower risk, rising investment**
- **Commodity boom**
- **Infrastructure spending**
- **Problems remain**
 - **Corruption, cronyism**
 - **Financial vulnerability**

THAILAND: NEAR TERM RISKS

Political risk is worrying

- **Huge struggle for the soul of nation**
 - Political risks will remain a drag for some time
- **But economy is flexible and resilient**
 - Growth surging until politics turned bad
 - Diversified / highly entrepreneurial economy

THE LOCAL SCENE: NEED TO ADAPT AND ADJUST

SINGAPORE CHANGING

Big economic trends

- Slower economic growth
- Productivity-driven
- Costs will keep rising
- Ageing work force + Immigrants
- Emphasis on local companies?
- More interaction with region
 - Iskandar? Riau?

OPPORTUNITIES ABOUND

Seize the positives

- More high value-added, more local
- Regionalisation/Mid-East relations:
 - Indonesia, Iskandar, Dubai, ...
- Premium on
 - Creativity, regional-cultural skills

CHALLENGES

- **Domestic social changes**
 - Foreign influx, less aware of sensitivities
- **Malaysia: potential risks for S'pore**
 - Racial/religious tensions hit us
- **Domestic restructuring**
 - As costs rise, relocation, ...
 - Changing demand for skills etc

CONCLUSION

The best is yet to be...

- Never a period without challenges
- Key is how we adjust and adapt

Thank you!