

4 things S'pore can do in the face of deglobalisation

They include continuing with ongoing restructuring efforts and being highly proactive in exploring new markets and opportunities. **BY RAMKISHEN S RAJAN AND SASIDARAN GOPALAN**

SOME eight years since the global financial crisis (GFC), global economic growth still remains highly sluggish. The IMF now forecasts global growth to be 3.1 per cent in 2016, comparable to actual growth of 3.2 per cent in 2015. However, current growth pales in comparison to the average global growth rate of 4.5 per cent between 2000 and 2007 pre GFC.

A large part of this growth drag is due to the continued stagnation of the Advanced Economies (AEs) which are projected to grow at 1.6 per cent in 2016, compared to 2.1 per cent in 2015. This is notably slower than the average growth rate of 2.7 per cent between 2000 and 2007. While Emerging Market and Developing Economies (EMDEs) are expected to grow at 4.2 per cent in 2016 compared to 4 per cent in 2015, even they are significantly underperforming their average growth of 6.6 per cent between 2000 and 2007.

To make matters worse, policy uncertainties stemming from the surprise outcome of the presidential elections in the US, the unanticipated Brexit vote in the UK, as well as the rejection of the referendum on political reform in Italy have escalated downside risks to global growth.

There are varied and sometimes conflicting explanations for what ails the AEs, which consequently lead to notably different policy prescriptions.

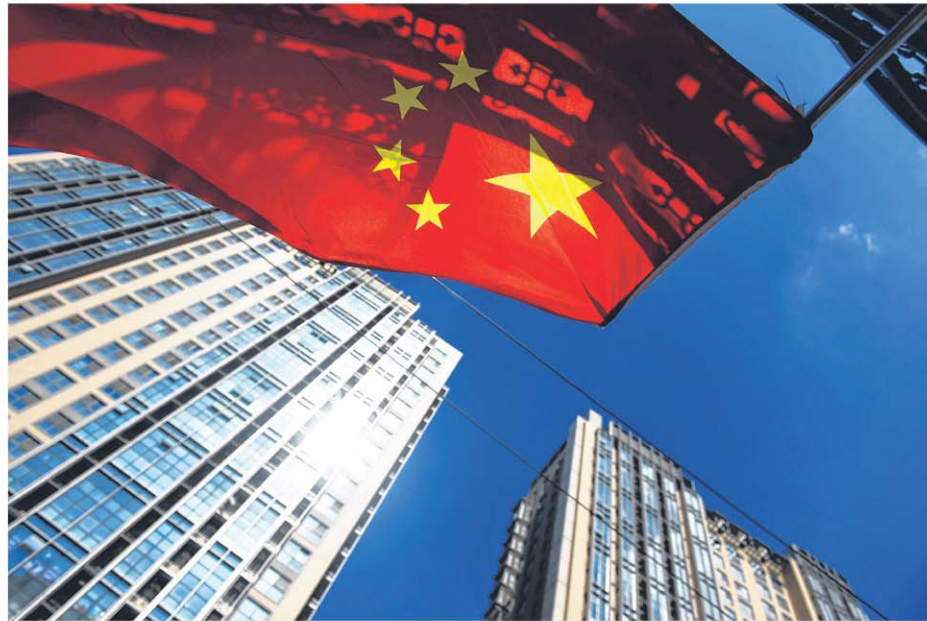
One school of thought argues that the continuing slow growth rate is an inevitable outcome of decreased potential output which is largely attributable to the weak demographics (ageing population profile) in AEs as well as lower global productivity growth. This implies that the current growth drag cannot be solved by expansionary stabilisation (ie fiscal or monetary) policies. Another school of thought posits that the sustained growth slowdown has been a result of too much accommodation by central banks and that has prevented the much needed "creative destruction" and has led to a misallocation of resources and excess capacity in some areas.

While both these schools of thought may differ in terms of diagnosis of the problem, they reach the same conclusion, namely that focus of policy should be on enhancing long-term competitiveness through regulatory and business tax reforms and by boosting product and process innovations as well as entrepreneurship rather than undertaking short-term fixes to boost demand.

In sharp contrast, other economists have argued that the problem in the AEs is due to inadequate and an inappropriate mix of stabilisation policies. In particular, the argument here is that ultra-loose monetary policy has over-extended itself and needs to be supplemented by more aggressive fiscal expansion. In the absence of accommodative fiscal policy, prolonged cyclical unemployment has turned structural or permanent in nature and there has been a deterioration in labour force participation rate as discouraged workers have left the labour force – a phenomenon known as "hysteresis".

Closely related to this is the so-called "secular stagnation" hypothesis which argues that the current low investment environment has not been about the cost of capital or asset prices per se but more to do with a decline in "animal spirits" of firms and rise in precautionary savings. This excessive savings over investment has acted as a drag on the economy causing real interest rates to decline. Proponents of this school of thought believe that the concerns about fiscal discipline and short-term fiscal sustainability are misplaced and too much fiscal austerity has in fact hindered quicker economic recovery.

Although EMDEs have remained relatively robust and are projected to have better growth prospects, there is considerable heterogeneity in terms of their growth performances. While



Within the region, China stands out with an average growth of about 8.3 per cent between 2010 and 2015, though the economy's growth has been clearly decelerating. PHOTO: AFP

EMDEs overall have been growing at an average growth rate of about 5.5 per cent between 2010 and 2015, Asian economies have posted an average growth rate of about 7.5 per cent during the corresponding period.

The Asian region (excluding Japan) is expected to constitute about one quarter of global GDP and double that share in terms of GDP growth in 2016, underlining its importance in the global economy. Within the region, China stands out with an average growth of about 8.3 per cent between 2010 and 2015, though the economy's growth has been clearly decelerating, with growth forecast to be 6.6 per cent for 2016. India is the new growth star in the region with its growth on an uptrend in recent times (albeit from a much smaller base than China). Its expected growth rate in 2016 is projected to be around 7.6 per cent compared to an average growth rate of 7.3 per cent between 2010 and 2015.

The Asean-5 economies comprising Malaysia, Indonesia, Thailand, Philippines and Vietnam have been the other bright spots within the region growing at an average of 5.4 per cent between 2010 and 2015, and a growth projection of 4.8 per cent in 2016.

DEGLOBALISATION CONCERNS

While the Asian economies have their own specific concerns (such as high leverage among state-owned enterprises in China), they are all faced with a much less favourable international trading environment. Data reveals that the average global growth rate of imports of goods and services stood at a little over 3 per cent between 2012 and 2015, which is almost half its rate of growth in the previous three decades. Consequently, global imports-to-GDP ratio has gradually started to decline in recent years.

There are multiple possible explanations for what could have triggered this process of "deglobalisation".

First, the causality could run from growth to trade, ie the trade slowdown is a consequence – rather than a cause – of growth slowdown. If this is the case, then it is not unreasonable to expect that global trade will pick up when global growth accelerates.

Second, in the last few decades, trade growth had outpaced that of global GDP growth due to the slicing of global value chains across countries. However, in recent years this so-called production fragmentation has plateaued and even started to decline due to insourcing in countries such as China which is doing multiple parts of the production process within the country itself rather than importing.

In addition, the ongoing rebalancing of China away from a focus on investment to con-

sumption has also likely contributed to reduced demand for intermediate imports. If this trend persists, it could have a negative impact on new entrants into the global supply chain.

Third, and most worryingly, the slowdown in import growth could well be a reflection of a gradual erosion of a liberal international trading system. For instance, according to the Asian Development Bank, the number of non-tariff barriers that were imposed on developing Asian countries by those outside the region rose from 2,263 in 2000 to 7,190 in 2015. Against this backdrop of creeping protectionism, the lack of any forward movement on global trade talks and the rejection of mega-regional trade agreements such as the Trans-Pacific Partnership (TPP) by President-elect Donald Trump is particularly concerning.

Added to concerns about deglobalisation noted above, EMDEs in Asia and elsewhere have, in recent weeks, been confronted with a so-called "Trump tantrum" as they have been faced with sharp capital flow reversals, resulting in downward pressures on currencies and foreign exchange reserves.

Given Singapore's size and openness, it is unsurprising that the city-state has been hard hit by these external factors and rising geopolitical risks and wave of populism worldwide. What can Singapore do given these global headwinds?

One, it is especially important that the city state uses this period of global downturn to continue with its ongoing restructuring efforts which will help better position itself to take advantage of the next upswing in global growth when it eventually happens. This also involves fostering a spirit of lifelong learning among the populace.

Two, Singapore businesses should continue to be highly proactive in exploring new markets and opportunities to expand the city state's trade and investment networks.

Three, the government must give renewed emphasis to the task of designing fiscally-sustainable compensatory measures to assist those who may have been left behind by the growth process.

Four, Singapore leaders should take on a more proactive role regionally and globally to champion the virtues of an open global trading system. Trade is after all, the lifeblood of Singapore's economy.

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