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Singapore must protect present vulnerabilities and future capabilities

By Simon Tay and Jessica Wau

THE Covid-19 outbreak has morphed into a global pandemic with not only healthcare priorities, but also concerns about the economy. Against this context, just five weeks after the S$4 billion "stabilisation and support" package in the 2020 Budget, the Singapore government announced its second package. Dubbed the Resilience Budget by Deputy Prime Minister and Finance Minister Heng Swee Keat, this provides an additional S$48 billion to support the economy through a range of assistance schemes.

Details of the package will continue to be analysed and implemented, to help cushion hard-hit businesses and the most vulnerable sections of society. It is also important to see the effort in a global context and how Singapore's capabilities are being protected and honed for the future.

The "mighty storm" of the pandemic and its impacts on supply and demand globally threatens all economies. Our earlier analysis had called for governments to act quickly to provide fiscal stimulus in anticipation of a drawn-out crisis.

While Singapore's second resilience package was presented as an "unprecedented response", it is not the only economy to have responded aggressively. In absolute terms, some countries have put forth much larger stimulus packages. The Trump administration has approved a fiscal "bazooka" of US$2 trillion to deal with the economic fallout of Covid-19.

However, comparing relative proportions is revealing. What the US and Singapore have done are comparable, at 10.3 per cent and 11 per cent of their respective 2019 gross domestic product (GDP). In contrast, the usually austere German government doubled down, with measures amounting to 20 per cent of its GDP there. The United Kingdom and Spain too have pledged roughly 15 per cent of their GDP.

Closer to home, Malaysia's revamped package amounts to US$57.7 billion, close to 16 per cent of its GDP. Vietnam, Thailand, Indonesia and the Philippines could also expand upon their present efforts which are comparably modest at less than 5 per cent.

No one knows for sure how the Covid-19 outbreak will develop and the negative effects could persist for a year or longer. However, it is important to be prepared. DPM Heng gave reassurance that "should it become necessary", he is prepared to propose further draws on past reserves to deal with the crisis.

Each country will set its own priorities, but as with the global financial crisis, dialogue between governments and clear communication about their measures will be useful, given the interconnectedness of the world economy and financial systems. This is especially as monetary policies may have limited impact with rates at record lows, forcing governments who do not have deep reserves to turn to other means; in effect, printing money. This opens the door to inflationary risks and market anxiety if there is a lack of coordination.

Much of Singapore's spending targets those most directly hit – the aviation, tourism and consumer-facing sectors. Moreover, schemes are tuned to help companies retain workers and also help families and individuals, including the self-employed.

GEARING UP FOR RECOVERY

These priorities are correct. Protecting jobs and livelihoods is vital. But even more than protection, there must be efforts to ensure that Singapore retains capabilities in key sectors, so as to be well-positioned for the eventual recovery.

The prime example of this is Singapore Airlines (SIA), which was strongly featured in the DPM's speech. The company's role in securing Singapore's hub status was highlighted, together with the positive links this brings to the economy and to attract foreign investors. The government package will help SIA with the costs of maintaining many of the staff during this time when 96 per cent of their flights have ceased.

On top of this, efforts to save the airline will come from Temasek Holdings, the majority shareholder, rather than directly from government. This rationale, explained at some length, and the mode of assistance are discernably different from what is being done to bail out American airlines.

Supporting select industries points to a broader strategy to go beyond protecting Singaporean workers and companies from the immediate hardships, to maintain and even hone longer-term capabilities. This is equally important so that Singapore can be ready to move ahead quickly when there are signs of renewed life in the regional and global economy.

In this context, one of the challenges is to deal with the disruptions in the supply chains. This danger has been recognised by G-20 leaders who have committed to do "whatever it takes" to minimise disruptions. It will be critical to ensure that the flow of goods continues, especially in the provision of medical materials and other essentials. Singapore is a hub for many of the supply chains that connect to the region and to global markets. It must make efforts to shockproof supply chains. Tying up with like-minded partners will be critical for this so that the sources of raw material, components and goods can be diversified.

Another needed strategy will be Singapore gearing up for the domestic production of sufficient percentages of key items, such as food and medical equipment. Onshoring production in Singapore will be challenging, given the limited land and labour, and higher costs. But there may be little choice and such investments can help our future resilience.

Singapore was not spared the Asian crisis of 1997-98 or the global financial crisis of 2008. But from these and other times of challenges, Singapore managed to undertake necessary changes and honed itself to emerge stronger. The resilience package must be similarly designed and implemented. Resilience does not only mean the ability to protect against present harm but also to ensure and invest in capabilities to bounce back for future growth.

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