VOICES FROM THE COMMUNITY

The path forward for Singapore

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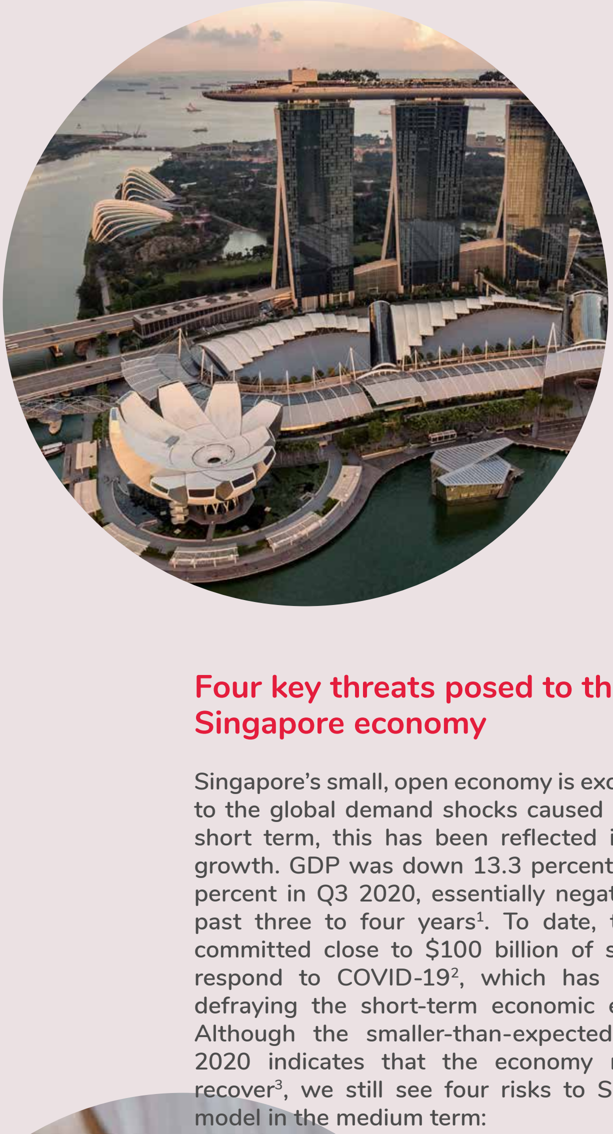
It has been 12 months since the COVID-19 pandemic began to upend lives and livelihoods around the world. While the prompt, forward-looking actions of the Singapore government appear to have muted the immediate health and economic consequences of the pandemic, the economic and societal shocks of this past year will continue to reverberate in the "next normal".

An emerging expert consensus suggests that this global next normal is likely to be marked by a number of important accelerations—in the pace of digital adoption by consumers, companies and countries, in the regionalisation of goods flows, and in attention to societal and business resilience. These trends are counterbalanced by the projected slow recovery for travel and tourism, and constraints on capital should bad debt mount. As Singapore takes stock of its longer-term future, now is the time to chart a revised path forward that captures disruptive emerging opportunities while mitigating key economic and societal risks.



Four key threats posed to the Singapore economy

Singapore's small, open economy is exceptionally vulnerable to the global demand shocks caused by COVID-19. In the short term, this has been reflected in slowing economic growth. GDP was down 13.3 percent in Q2 2020 and 5.8 percent in Q3 2020, essentially negating the gains of the past three to four years[1]. To date, the government has committed close to $100 billion of support measures to respond to COVID-19[2], which has gone some way in defraying the short-term economic effects of the virus. Although the smaller-than-expected contraction in Q3 2020 indicates that the economy may be starting to recover[3], we still see four risks to Singapore's operating model in the medium term:

1. Accelerating job displacement from digitisation

For the past several years, business leaders have been preparing for the impact of automation and digital technologies on their workforce. The economic downturn is accelerating job displacement, and some jobs may not return as the economy recovers; some 40 to 70 percent of jobs at risk from COVID-19 in Europe and the United States are already automatable with current technology[4]. Singapore has a track record of innovation in national reskilling[5], and a large-scale effort to target the roles most vulnerable to automation—such as manufacturing jobs in predictable environments—could help mitigate the economic fallout of accelerated job displacement.

2. Potential disruption of Singapore as a regional talent hub

Even prior to COVID-19, supply chains in sectors such as consumer goods were shifting, taking on an increasing manufacturing presence in emerging ASEAN (particularly Vietnam) as companies prioritised being closer to growing consumer bases and just-in-time supply chains. COVID-19 has demonstrated the effectiveness of remote-working solutions, which could increase companies' willingness to relocate certain employees either closer to demand pools or to lower-cost locations, rather than in regional hubs such as Singapore.

3. Potential erosion of competitiveness of local SMEs

According to our analysis, approximately 60 to 95 percent of digital revenue accrues to the top 10 percent of companies in each sector. This "winner take all" dynamic has been further amplified by COVID-19. In the US economy, for example, we estimate that the top quintile of companies is expected to make $278 billion in economic profit in 2020, while the bottom quintile will lose $462 billion. In 2019, SMEs generated 44 percent of nominal value-add to Singapore's economy, employed 72 percent of its workforce, and constituted 99 percent of all enterprises located in Singapore[6]. Amid a rapidly digitising economy, these SMEs may need support in building new skills, whether in the form of capability-building programs, democratised access to talent, or access to newly critical infrastructure (such as cloud migration).

4. Slow projected recovery of international tourism

From 2010 to 2017, global tourism GDP grew at 4.3 percent a year, significantly faster than the overall global GDP growth rate of 2.8 percent[7], fuelled by the growth of emerging markets, the growing middle class, and increased and cheaper air services. Global air travel demand declined by 88 percent from February to April 2020[8], as case numbers escalated and border restrictions were put in place. Even after COVID-19, travel is expected to experience a slow recovery; we estimate that global air travel might return to pre-pandemic levels in 2022 under optimistic economic and public health assumptions, and later than 2023 given more conservative assumptions. Singapore has always been reliant on international travel flows[9], especially for business, and may now need to reprioritise planned investments in tourism and hospitality.

Four opportunities presented by the current crisis

Amid the economic disruption and risks, Singapore has a number of core strengths, including a high level of trust in its institutions[10], advanced digital infrastructure[11], a capable and responsive government[12], and an attractive business climate[13]. These strengths could enable Singapore to capture a range of emerging global opportunities as economies and industries digitise, positioning the country to thrive in the "next normal". We estimate that even a small subset of these plays could generate up to $2.3 billion in economic value as well as 60,000 new jobs (60 percent PMET[14]) over the next five years for Singapore.

1. Create globally attractive platforms and standards that build on Singapore's digital infrastructure and reputation for technological innovation. Examples may include a global exchange for sustainable finance, a cross-border digital talent marketplace that helps companies access technical talent in countries where they operate, or a digital-twin hub that pioneers and exports high-fidelity simulation and virtual reality solutions across industries such as manufacturing, infrastructure, or computational breeding (specifically in agriculture).

2. Design and develop new exportable services in areas where Singapore has world-leading domestic institutions and access to innovation. Healthcare may be one example; Singapore is among the world's top health systems in quality and efficiency and has invested heavily over the past ten years in digitisation. With appropriate investments in a population-wide health data platform, a secure-yet-flexible vendor access model, and underlying regulatory and financial enablers, Singapore could become a global center that attracts, develops, and scales digital health services for populations in Asia and the world.

3. Improve local and regional resilience by expanding value chain participation in healthcare and food. For example, Singapore could foster a Southeast Asian ecosystem of OEMs, suppliers, and innovators to become a premier global hub for contract manufacturing in medtech. Alternatively, Singapore could establish an end-to-end agricultural technology ecosystem that encompasses everything from high-value engineered seeds to regional agricultural production in the form of agriparks and offtake agreements. In both cases, a combination of investments in cutting-edge technological capabilities (such as design and Industry 4.0), programmatic M&A, and regulatory and tax incentives would be critical to build local champions that could anchor the ecosystems.

4. Capture value from supply chain digitisation and diversification with higher-productivity, higher-value-added manufacturing as companies seek to serve non-China markets. Singapore could do so by directly capturing high-value manufacturing volumes in products that require significant interactions between R&D and manufacturing (such as wafer fabs). It could also provide value-added services to regional hubs (such as by encouraging advanced electronics and semiconductor manufacturers to establish supply chain control towers in Singapore to oversee plants across Southeast Asia).

Seizing these opportunities will require a whole-of-government approach and investment in critical enablers

Pursuing these complex ecosystem opportunities will require Singapore to orchestrate bold new G2B (government-to-business) and G2G (government-to-government) collaborations within and outside its borders. Indeed, given the breadth of opportunities and the implementation complexities of each, Singapore may want to consider first selecting five to ten demand-led use cases around which to galvanise and focus the nation. In addition, the Singapore government may need to reinforce its skills at working across natural boundaries and taking a whole-of-government approach.

Singapore could also consider whether focusing on a number of more specific enablers might enable the country to improve its strategic position in the post-crisis world. While digital talent and infrastructure have been a historical strength for Singapore, remaining on the vanguard may require the development of additional capabilities. Reskilling across industries is already a priority in Singapore, as evidenced by targeted programmes such as SkillsFuture and Industry 4.0 Human Capital Initiative (IHCI). Singapore could consider scaling and exporting its digital skilling programmes to private sector companies and ministries across Southeast Asia to build the local and regional pipeline of in-demand skills.

Additional value-adding capabilities could include integrating the entire digital stack for selected industry verticals (such as healthcare or financial services), aggregating new data sets across industries (such as using financial payments data in retail), doubling down on selected technologies (such as digital twins), and enabling platform-related use cases (such as talent matching).

The aftermath of COVID-19 will likely bring considerable market churn, which may create significant M&A opportunities. The government could therefore consider investing in upskilling Singaporean companies to engage in the sort of strategic, programmatic M&A that could potentially create homegrown global champions.

We believe that Singapore is off to a strong start in its ability to capture the growth opportunities and mitigate the underlying risks emerging in the post-pandemic next normal. Singapore's institutional strengths and comparative advantages in trust, responsiveness, and digital connectivity have helped it weather the immediate effects of the crisis and will be a critical foundation for medium-term growth. As Singapore looks to the next normal, it will need to foster new, creative collaborations and partnerships and become a global lighthouse for new digitally enabled ecosystems in emerging industries.

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