Chairman's Note

Private and Confidential
For SIIA Corporate Members and Advisors

2022: Navigating through a global storm

After two years of battling COVID-19, the world seemed poised for a return to pre-pandemic days, including the reopening of borders and resumption of economic activity. However, Russia's shocking invasion of Ukraine has led to tangible effects felt across the world, via disruptions in energy prices and global markets. Questions are being asked about how the global economy will fare in the coming months, and, in turn, what the implications will be for Singapore and ASEAN. Will we be able to stay the course towards recovery, or will priorities need to change? Drawing on my recent discussions with the SIIA's network of academic and diplomatic contacts, I would like to share some of my thoughts with you as our member and friend.

- **Russia-Ukraine War and Sanctions:** Russia's invasion of Ukraine has had a ripple effect across the world. Energy prices have risen sharply, alongside a spike in the price of food and other commodities. A direct consequence will be slower business activity, investment, and consumer spending. The longer the crisis lasts, the greater the uncertainty for policymakers, businesses, and consumers. That said, assuming the conflict does not escalate beyond Russia and Ukraine, it is unlikely that the global economy will tip into outright recession in 2022. Moreover, ASEAN economies are likely to fare relatively well amidst this turbulence, due to their strong economic positions and recovery trajectory.

- **China's Economy:** Besides Russia's invasion, the other major factor affecting growth projections for 2022 is uncertainty about China's economy, driven by troubles in its real estate sector. The emergence of new COVID-19 variants and outbreaks has raised questions about China's zero-COVID policy, with lockdowns disrupting factory output and consumer spending. Moreover, there are concerns that China may be drawn into the standoff between Russia and the rest of the world. China faces a balancing act between extending a helping hand to Russia under their "no limits" partnership, or retaining a certain distance to insulate from the strong backlash against Russia. The already tense US-China relationship is another further complication – the US has already warned China that there will be consequences if it helps Russia evade export controls or bans on financial transactions.

- **Trade and Investment Impact from the Pandemic:** The effects of the pandemic remain significant and are being felt in shortages in chipmaking and other critical goods, together with shipping disruptions. On the fiscal front, the world is seeing stagflationary pressures where growth is still restricted due to COVID, and now the Russia-Ukraine crisis, while inflation is rising. Inflation was already on the rise before Russia invaded Ukraine, and the conflict has worsened these pressures. The US Federal Reserve recently made its first interest rate hike in three years and plans to roll out six more hikes over the course of 2022. Other central banks are predicted to make similar moves.

It is now evident that 2022 will not see as much recovery and post-pandemic growth as analysts originally envisaged. Thankfully, there are some silver linings when we look at our region:

- **Commodity Volatility and ASEAN's Strengths:** Prior to the crisis, ASEAN countries were not major importers of Russian crude oil. Only Thailand imports significant amounts of Russian oil, and even then, this only made up 3.7 per cent of its overall refinery feedstock imports in 2021. The impacts of rising oil prices are still being felt in ASEAN, but ASEAN economies are not facing the dilemma that European nations are feeling in their energy supply. ASEAN economies such as Indonesia and Malaysia are also major producers of minerals and vegetable oil and are therefore playing an even greater role in meeting global demand amidst current commodity market issues.

- **ASEAN Economies are Well-Placed to Navigate Global Shifts:** Beyond ASEAN's role in the global commodities market, the current ratcheting up of geopolitical tensions will increase the pressure on investors to find safe havens. Aside from the ongoing situation in Myanmar, most countries in ASEAN are relatively stable at the present time. As companies diversify their value chains in search of greater resilience and in conjunction with China+1 strategies, much of this business will come to the Southeast Asian region. ASEAN was already a leading destination for FDI prior to the pandemic, with FDI inflows in 2019 reaching US$182 billion, making ASEAN the largest recipient of FDI among developing economies. In 2020, amidst the pandemic, ASEAN's share of global FDI rose from 11.9 per cent in 2019 to 13.7 per cent in 2020, according to official ASEAN and UNCTAD figures.

- **Reopening and Recovery:** While the COVID-19 pandemic is not yet over, there are signs that the pandemic situation is starting to turn a corner. Southeast Asian economies are reopening and treating COVID-19 as endemic, including lifting quarantine requirements for arrivals, and will benefit from a release of pent-up demand. The beleaguered travel and hospitality sectors will see recovery, labour-constrained sectors will begin to bounce back, and there will be fewer dislocations of supply chains. Growth, therefore, should return to our region, and most of ASEAN is on track to achieve around four to five per cent growth in 2022.

What does this mean for Singapore and ASEAN's overarching recovery strategies? The need for upgrading and transformation remains clear. The present slate of global challenges does not change this equation. Indeed, it is even more pressing for Singapore to strengthen its role in enabling the digital and green economies. Last year, the SIIA released three special reports - "New Horizons: Global and Regional Strategies for Singapore's Future", "From Crisis to Endemic: Struggling or Pressing Ahead?", and "Greening the Road Ahead: Building a Collective ASEAN Climate Community", highlighting emerging trends that bear watching.

- **Digital Economy and Technology:** COVID-19 has made it absolutely clear that more needs to be done to offer goods and services via digital platforms. Singapore and ASEAN will need to grow both smart commerce and logistics infrastructure, upgrading systems and upskilling talent. Singapore can play an important role for ASEAN as a living lab or regulatory sandbox where innovations can be tested swiftly before being rolled out to the region. Its role in fostering Digital Economy Agreements (DEAs) will bring to bear the importance of interoperability and harmonization of standards. Governments are also recognising that private-public partnerships in the digital space will be especially critical.

- **Sustainability and Climate Action:** The current surge in oil prices has given even greater impetus to wean economies off fossil fuels. Green and transition finance will be needed, particularly in infrastructure. The recent push by the Singapore government to offer green bonds for infrastructure projects in Singapore is a promising start, and more can be done to bring infrastructure assets to capital markets. Carbon trading, particularly in the voluntary offset market, is also set to grow significantly in the coming years. Singapore has taken early steps to strengthen its carbon taxation policies in Budget 2022, but the majority of ASEAN nations are also implementing or at least exploring emissions trading and will likely adopt similar practices going forward.

Despite the storm clouds on the horizon, there are signs that ASEAN can make it through the turbulence relatively unscathed. Even if we cannot wish away the storm, we can find a path through these choppy waters and steer towards the future. I hope this note is of interest to you, and I would be happy to hear your views.

Yours sincerely,

Simon Tay
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