Navigator

Now, next and how for business

Singapore report

HSBC

Singapore

Regional integration to underpin future export growth

After a strong 2017, Singaporean firms enter 2018 in a positive mood. The recent CPTPP agreement will further boost optimism in the trade outlook. More broadly, as a key regional trade and logistical hub Singapore will continue to be able to take advantage of increased supply-chain integration associated with regional agreements such as the AEC. Meanwhile Singapore should be able to leverage its reputation for world-class infrastructure into opportunities for professional services firms in supporting infrastructure investment in the region.

Short-Term Snapshot

As a global trade hub, the Singapore economy benefitted from the upswing in world trade in 2017, boosting transport and logistics activities, as well as financial and legal services supporting global trade flows. Stronger regional supply-chain activity has also boosted domestic manufacturing, notably in the petroleum and electronics sectors.

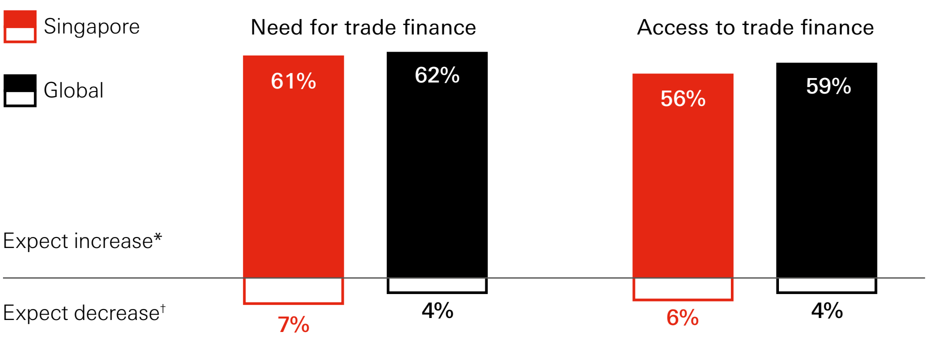
We expect the external environment to remain supportive of growth in 2018, with both the US and Europe retaining solid momentum. But we expect export growth to moderate over the year, as Chinese import demand cools and global electronics demand slows.

Against a backdrop of favourable economic conditions, 70% respondents to our survey expect good trade volumes to rise through 2018. Whilst noting the favourable external backdrop, Singapore firms were slightly less optimistic than the global and regional averages. Whilst Chinese import demand is expected to slow, respondents continue to view it as a key growth market for exports this year. Robust economic growth expected in Malaysia, Japan and the US are also likely to be behind respondents' positive outlook for export growth in these areas.

Action points for business

- Invest in labour saving technology in the years ahead, particularly in the manufacturing high value-add sectors, where productivity improvements can help to boost competitiveness as cyclical tail-winds wane.
- Explore business opportunities associated with strong regional growth and infrastructure needs. Aided by trade agreements such as CPTPP, firms should look at opportunities for expansion overseas.

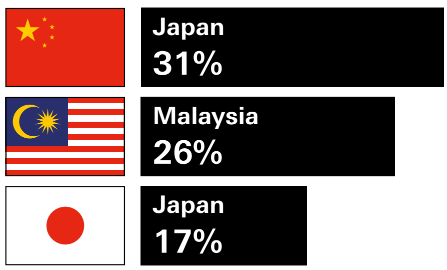
Outlook for trade finance need and access in the next 12 months



*Expect increase = Increase significantly + Increase slightly
†Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

Which are the top 3 markets where your business will look to expand in the next 3-5 years?



Source: TNS Kantar

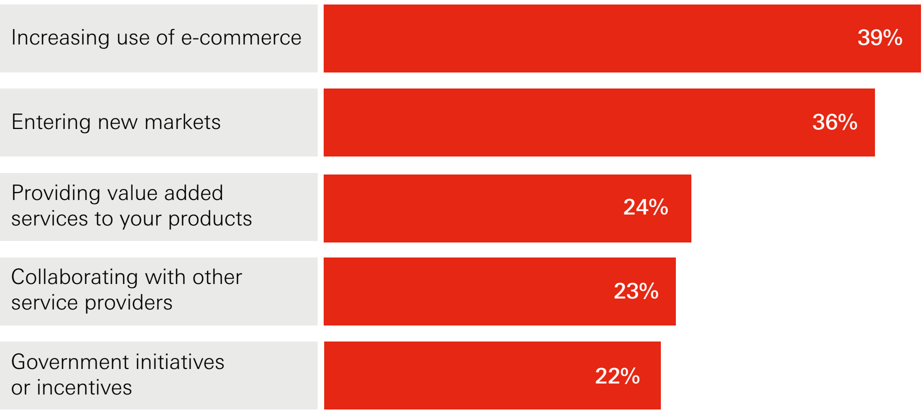
Consistent with the projected rise in trade volumes, just under two-thirds of the respondents to our survey anticipate an increase in demand for trade finance this year. While over half of Singaporean firms expect access to finance will improve, firms noted that exchange rate volatility, high transaction costs and regulatory barriers remained potential risks that could impede their access to finance.

Service exports have been growing in importance over the past decade. In 2017 service exports accounted for 30% of total exports, up from 20% in 2008. Reflecting its key role as a regional trading and logistics hub, the transportation and distribution sector made up nearly a third of total services exports in 2016. That said, the financial and B2B sectors have also grown in importance over the past decade and contributed around 45% of total growth in service exports in 2017.

Although service exports grew somewhat more slowly than goods exports last year, Singapore services firms are more optimistic than non-service industries about trade prospects over the next 12 months. Around two-thirds of services firms expect trade to increase, which is above the global average. Survey respondents cited increased use of e-commerce and entering new markets as the most common strategies for expanding their services business.

Strong external backdrop and increased use of technology boosts confidence in trade prospects but China slowdown maybe dampening overall confidence.

How do you plan to grow your services business?



Source: TNS Kantar

Service exports growing in importance with Singapore set to gain from increased regional integration.

Trade Policy Developments

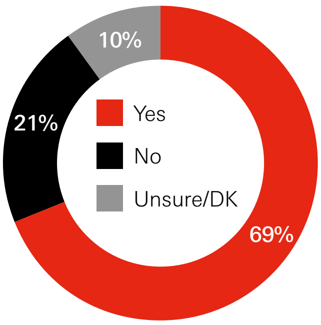
Following the US's withdrawal from the Trans-Pacific Partnership (TPP), the remaining 11 countries in the Asia Pacific region have recently signed a replacement agreement known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP). Whilst Singapore already has in place agreements with the countries included as part of its membership with ASEAN, there are opportunities, notably for service producers, to benefit from improved access to a wide range of sectors, as well as government procurement contracts. Increased technology protectionism should also encourage investment with Singapore firms generally holding an advantage in R&D.

There is also potential for further integration of supply-chains within the region through agreements such as the Asian Economic Community. This would mean a reduction in non-tariff barriers, and enable the region to act more as a single market – a development that would especially benefit Singapore given its role as a hub. Given the demographic challenges facing the economy, the benefits of such integration could lead to increased productivity and investment and boost long term economic growth.

Action points for business

- Singaporean firms should capitalise on the recent agreement of the CPTPP and expansion of the SAFTA and pursue opportunities to expand their markets overseas.
- Rising costs of labour and skill shortages highlights the importance of Singaporean firms to continue to invest in labour-saving technology, to boost competitiveness and take advantage of increased supply chain integration across the region.

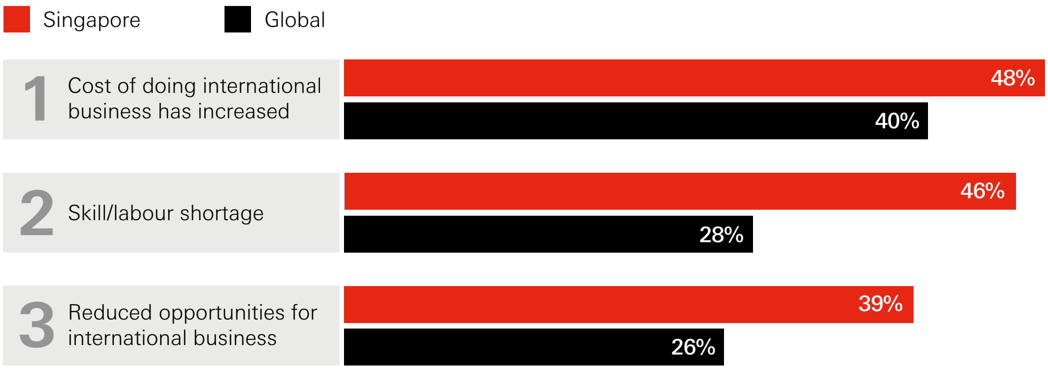
Are governments becoming more protective of their domestic business?



Note: may not total 100% due to rounding

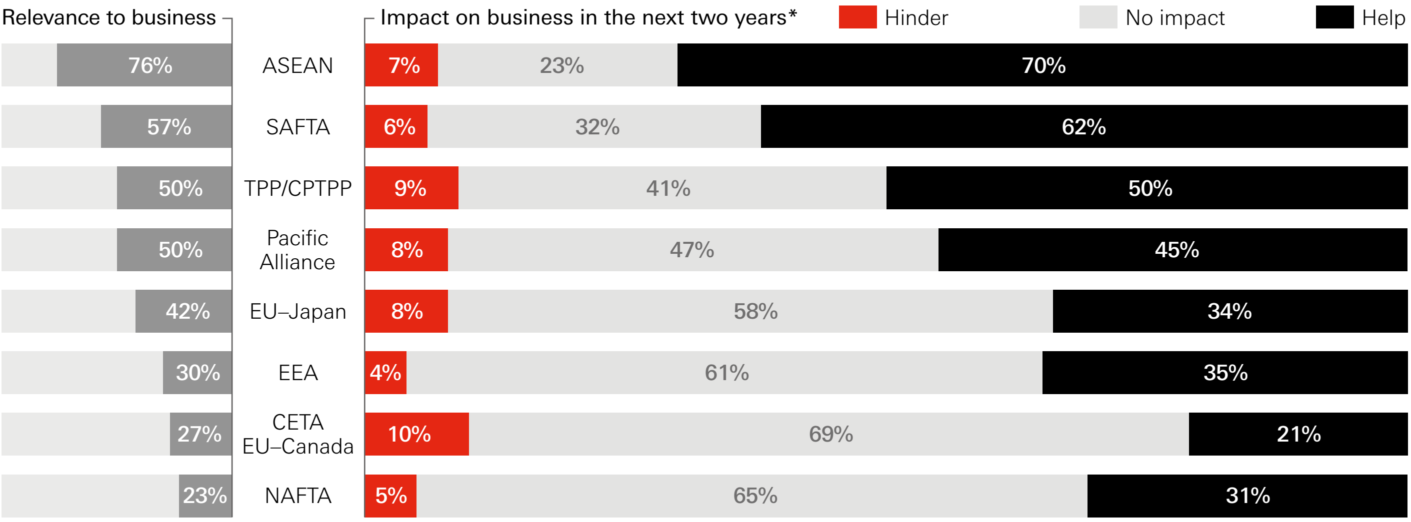
Source: TNS Kantar

Top 3 impacts of protective policies on my business



Source: TNS Kantar

Relevance and impact of trade agreements



Source: TNS Kantar

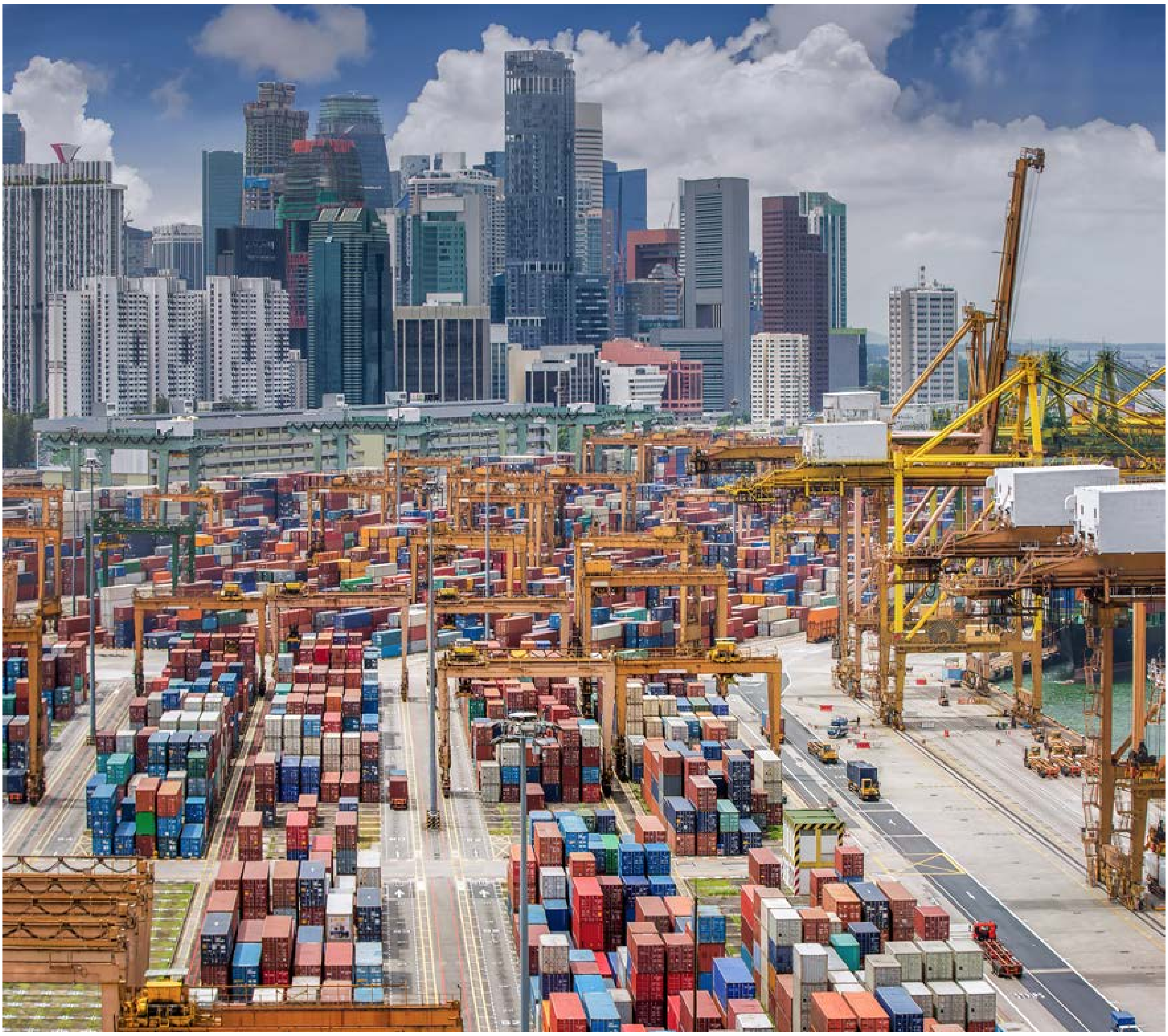
*May not total 100% due to rounding

Unsurprisingly given the focus of the Singaporean government on boosting regional trade links, firms view ASEAN policies and agreements as having the largest impact on trade prospects going forward. More than half (60%) felt ASEAN 2025 would have a positive impact, and around 70% believed the existing ASEAN trade agreement would help business. With China being one of Singapore's top trading partners, over half (59%) had a positive view on Belt & Road. The South Asian Free Trade Area (SAFTA) is another agreement expected to have a positive impact (62%), while the recent upgrade to the Australia and Singapore further deepens trade flows between the two countries.

However, despite a generally upbeat view on how current and future trade policies are likely to boost trade, firms still raised concern over increased protectionism. More than two thirds (69%) felt governments are becoming more protective of domestic businesses. This has led to increased costs for businesses (48%), shortage of skills / labour (46%, which is one of the highest globally) and reduced opportunities (39%). In all respects Singaporean firms were considerably more concerned than the global averages.

Moreover, while Singaporean firms are largely focused on the region, they are far from immune to global events. Indeed, US policies and BREXIT are seen by firms as possibly having the biggest negative impact (34% and 25% respectively).

> Whilst Singapore firms view regional trade initiatives with the most optimism there is concern over increased protectionism including increased cost of doing business.



Long-Term Outlook for Trade

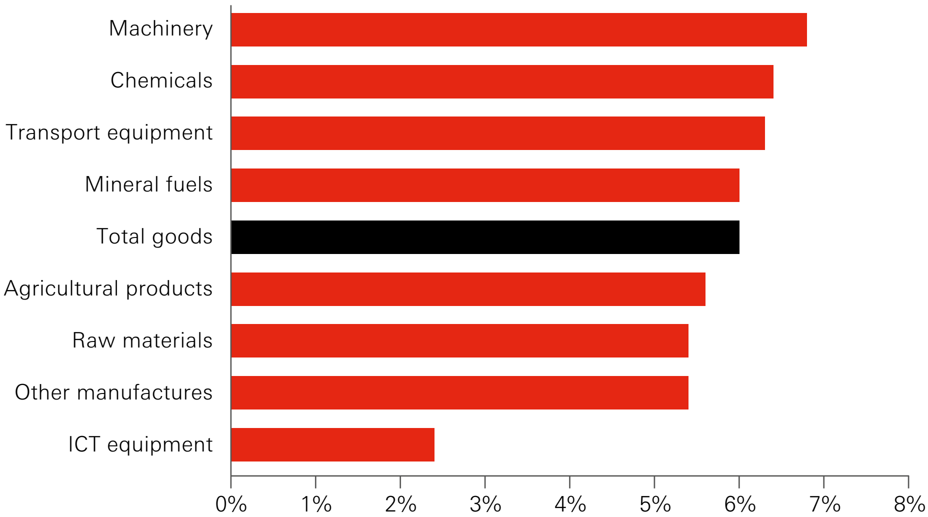
Looking beyond the short-term, Singapore's manufacturing industry is likely to continue to face structural challenges due to a loss of competitiveness in recent years. Supported by government policies designed to capitalise on the 'Fourth Industrial Revolution' and the Internet of Things, manufacturing exports are likely to continue towards high value-added goods. Indeed, a recent report by the World Economic Forum ranked Singapore among the top 25 countries best-positioned to benefit from the rapid rise in new manufacturing technologies.

Singapore's proximity and sectoral strengths in services including R&D and business services will also enable it to tap into rising living standards and strong growth in infrastructure investment through ongoing regional urbanisation and China's One Belt One Road initiative.

Regional infrastructure needs will underpin demand for good exports
Given its proximity and regional integration as part of ASEAN, Singapore is expected to benefit from the strong growth in regional infrastructure investment. Industrial machinery is expected to remain the country's top export for the foreseeable future, contributing nearly half of the projected growth in total merchandise exports over the coming decades. Meanwhile, as a key oil trading and refining hub, petroleum products will still be a key export and important driver of growth over the coming decades contributing around 11% to annual growth over the period to 2030.

An upswing in global electronics demand in 2017 saw exports from the ICT sector surge. But Singapore has lost competitiveness in some sub-sectors in recent years. Together with the offshoring of production of some electronics components, this will mean ICT's role as a key export sector diminishes. Indeed, ICT's contribution to the growth in total exports will fall from 7% between 2017-20 to only 2% in the subsequent decade. Consequently, ICT exports are set to slip from being the third largest export sector in 2016 to the fourth by 2030.

Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Action points for business

- Competition from low cost producers, notably in electronics, means Singapore firms need to continue to invest in technology to maintain its current competitive edge.
- Regional trade will remain the key source of export of goods and services. Firms should push for further integration through the AEC and other trade agreements to create more opportunities.

Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	China	China
2	Hong Kong	Hong Kong
3	Malaysia	Malaysia
4	Indonesia	Indonesia
5	USA	USA

Note: Ranking among the 24 trade partners covered in the forecast

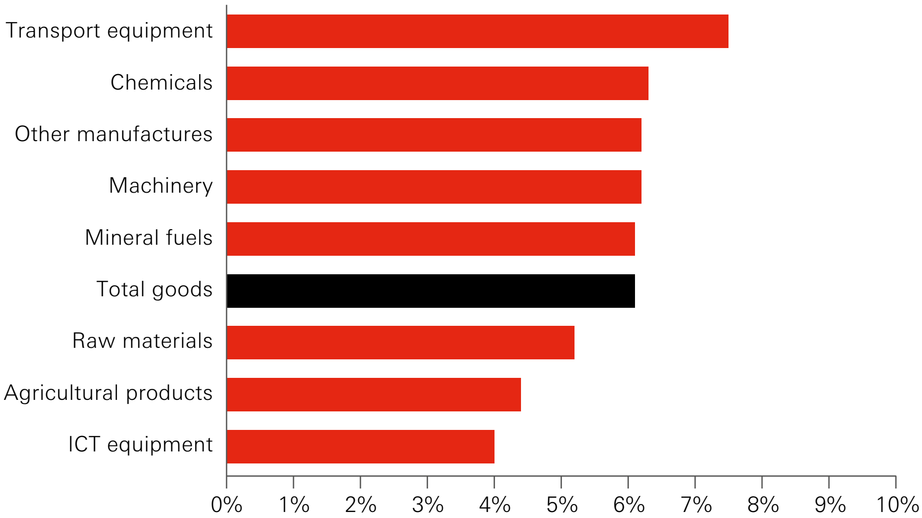
Source: Oxford Economics

Asia has been a key destination for merchandise exports over the past decade, and with the region set to continue outpacing the global economy, this trend should continue. Our forecast is for goods exports to grow by an average 6% a year between 2017 and 2030. Consequently, by 2030 the region is projected to account for around three-quarters of Singapore's goods exports. With exports to grow by around 9% per year between now and 2030 China will account for around a fifth of good exports (among the 24 economies covered in the HSBC Trade Forecast) up from 13% in 2016. As an important gateway for trade between China and Singapore, Hong Kong will continue to be Singapore's second largest export destination. Meanwhile, given the geographical proximity Malaysia and Indonesia will also remain an important destination for Singapore's exports. And whilst the US will account for around 5% of good exports by 2030, down from 7% in 2016, it will remain Singapore's fifth largest export market.

Infrastructure needs will drive demand for industrial machinery equipment
As a key exporter of refined oil products, the sectoral composition of Singapore's imports closely mirrors that of exports. Consequently, petroleum products are expected to remain a major driver of import growth in the coming years.

However, the government's ongoing commitment to incentivise firms to investment in labour saving technology and ongoing infrastructure investment (including the development of Changi Airport Terminal 5 and the recently-announced SG$5bn rail fund), will increase Singapore's demand for industrial machinery and transport equipment. Following growth of more than 24% between now and 2030, industrial machinery will not only be the fastest source of import growth but will also see industrial machinery imports retain the position as Singapore's top merchandise import in 2030.

Imports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Top 5 Hotlist origins of goods imports

Rank	2016	2030
1	China	China
2	Malaysia	Malaysia
3	USA	USA
4	Japan	India
5	Korea	Japan

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

Whilst growth in imports from Latin America and the Middle East are the top two fastest growing sources over the forecast horizon, this reflects a temporary surge in organic and non-organic chemical imports from Brazil and Tukey in the short-term. Looking beyond this, Asia (excluding Japan) will remain one of the key sources of imports for Singapore. China will remain Singapore's top source of imports over the projection period. Whilst Malaysia and the US will remain important sources of imports, India is set to record the fastest growth for exports over 2017-30, at around 10% over the long term. This will see India replace Japan as the 4th largest source of imports. Much of this growth will be in B2B services, and the forthcoming second review of the India-Singapore Comprehensive Economic Cooperation Agreement could raise two-way trade even further between the two countries.

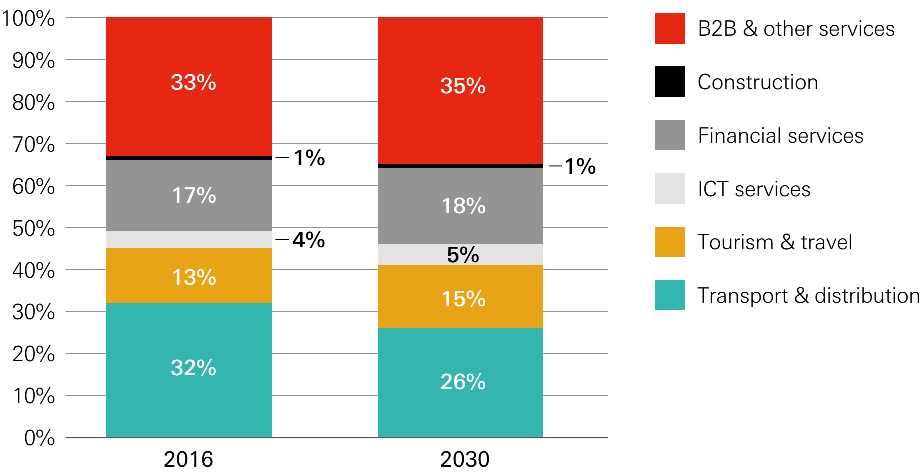
Business services to grow rapidly in coming years
The Singaporean economy has become increasingly service-orientated in recent decades, and this is reflected in the growing importance of service exports. Looking ahead, Singapore's comparative advantages will continue to drive faster growth in service than in goods. Our forecast is for service exports to rise by an average 6% per year between now and 2030, outstripping growth in goods exports over this period.

As a key trade and logistical hub, the transportation and distribution sector will remain a key driver behind the solid growth projected in service exports, with the recent opening of Terminal 4 and construction of Terminal 5 at Changi airport, contributing to around a quarter of the growth in total service exports.

But the fastest growth is forecast in business support services, with around 40% of the growth in service exports is expected to come from B2B sectors. Indeed, the Singaporean government is actively promoting expansion and enhancement of the ICT infrastructure to ensure the country can retain its regional advantage as a headquarters for businesses exporting modern tradable services. The government is also assisting firms through the creation of programs such as the recently created 'Lawyers Go Global' program, aimed at helping firms expand abroad to take advantage of the likely increase in legal work associated in areas such as infrastructure arising from China's Belt and Road initiative.

> Business services will continue to dominate with trade agreements and ongoing investment by the government to support Singapore's advantage.

Sectoral shares in total services exports



Source: Oxford Economics

Top 5 Hotlist destinations of services exports

Rank	2016	2030
1	Japan	China
2	China	Japan
3	USA	India
4	Indonesia	Indonesia
5	India	USA

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

Over the coming years, China is set to replace Japan as Singapore's key service export market and account for 10% of Singapore's service exports by 2030. Moreover, underscoring the importance of regional demand, the top five destinations for services exports will all be Asian economies by 2030 with strong growth in the export B2B services seeing India becoming the third largest service export market for Singapore. Reginal trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership have the potential to boost trade in services through improved access to suppliers and foreign investment.

About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC's own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics' suite of models used to ensure consistency between HSBC's forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter's competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics' Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- For trade in goods, sectors are classified according to the UN's Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics' long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

For media enquires please contact:
Natasha Plowman
HSBC Global Communications
Natasha.Plowman@hsbc.com

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