Clearing the Runway for Intra-Asia Trade

Summary of Insights: Singapore

Singapore's strategic location and strong trade relationships ensure its vitality to trade in Asia over the coming decade, with the value of its trade with 11 top Asian markets potentially growing from USD450 billion in 2020 to USD679 billion by 2030

This market summary provides an overview of some of the main insights on intra-Asia trade for Singapore as part of a larger study commissioned by UPS and developed by AlphaBeta entitled: "Clearing the Runway for Intra-Asia Trade: Key insights for unleashing the potential for intra-Asia trade by 2030." The 12 markets (i.e., "Asia-12") covered in this report are Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The purpose of this research is to offer key critical insights on the rise of intra-Asia trade and prospects for future growth through 2030, in the context of Asia's continuing economic growth and against the backdrop of increasing volatility in global trade relationships today. The findings from this research showcase the potential for intra-Asia trade to continue its rapid growth over the coming decade, and support governments and businesses in identifying key enablers for this opportunity and steps to capture the potential. This summary is without prejudice to the status of or sovereignty over any territory or boundary. In cases where China is referred, it predominantly refers to mainland China. For the full set of insights, including data sources and methodology, please refer to the full report at: https://about.ups.com/sg/en/home.html

Top 3 insights on intra-Asia trade prospects for Singapore

1. **Singapore is an essential hub for regional trade and could strengthen this position in the coming decade.** Buoyed by an increasingly wealthy and urbanised Asian population and deeper trade integration in the region, Singapore's trade with 11 other major markets (together, the "Asia-12") could grow by over 50% from 2020 levels to USD679 billion by 2030.

2. **Singapore's trade growth with the rest of the Asia-12 is expected to be driven by four key segments, particularly high-tech goods.** Four key segments, retail, industrial manufacturing and automotive (IM&A), high-tech, and healthcare, account for 76% of Singapore's trade with the rest of Asia. The high-tech segment, a key export industry that constitutes nearly half of its intra-Asia trade, will drive future growth given the rise in digitalisation across the Asia-12 and particularly in ASEAN markets.

3. **Businesses in Singapore can capture the intra-Asia trade opportunity through three areas of multistakeholder action that could address major barriers to regional trade.** (1) Negotiate comprehensive regional trade and economic partnerships; (2) Collaborate on harmonising product standards across the region; (3) Build resilience into supply chains.

Top 3 takeaways for businesses in Singapore

1. **Digitalise comprehensively, particularly in advanced technologies.** The pandemic has pushed many organisations to adopt digital systems for their operations as it builds their connectivity and efficiency. However, there remain key gaps where Singaporean businesses could adopt advanced tools to improve the productivity of their supply chains.

2. **Plan for both headwinds and opportunities.** This includes diversifying supply chains into resilient trade routes, such as with Malaysia, and targeting high-value and high-growth trade routes, such as with China and other ASEAN markets. Diversifying supply chains is critical to building resilience in trade flows.

3. **Partner with and promote deep integration of micro-, small-, and medium-sized enterprises (MSMEs) into regional supply chains.** Around 60% of MSMEs in Singapore indicated that they were unsure of or have no intention of expanding internationally. Larger companies can partner with these smaller firms to supplement resources that could improve their trade competitiveness.

Singapore will continue to be an essential hub for trade in Asia in the coming decade

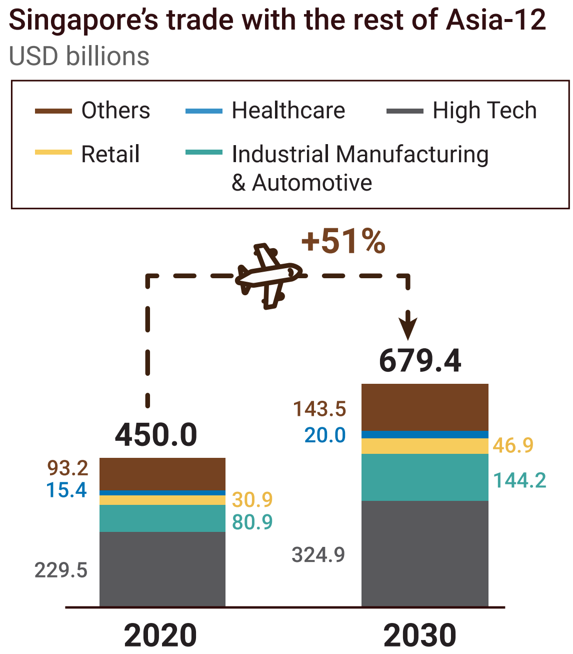
Asia is a critical component of global trade. Over the past half century, Asia has developed into the world's largest manufacturing hub, ably supported by hubs for trade and finance like Singapore, which helped connect factories in Asia to consumers in Western markets including the US and Europe. However, as Asian markets become the global epicentre for new consumer demand, building off a sustained period of economic growth, trade lanes within Asia are gaining importance. Already, intra-Asia trade accounts for two-thirds of the region's trade with the world.

Singapore is expected to leverage its position as an open economy in a strategic geographical location to boost its trade within Asia over the coming decade. Singapore is strategically located at the heart of ASEAN and has deep economic links with critical regional and global markets, including China, Australia, the US, and Europe. Trade is critical to the Singapore economy – trade value is over three times that of its GDP – and Singapore plays a key role in facilitating trade flows more broadly in Southeast Asia. Its world-class financial sector, stable government, and ease of doing business encourage a range of global and regional companies to conduct business from its shores. Singapore is thus well-placed to receive a boost from favourable economic trends around the region, and trade with 11 other major markets (together, the "Asia-12") could grow by 51% from USD450 billion in 2020 to more than USD679 billion by 2030 (Exhibit 1). The Asia-12's growing middle class and urban areas are expected to spur greater demand for traded goods and services to support this growth. Singapore's participation in the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) also sets the stage for further trade integration within the region.

Trade in four key product segments is expected to drive this growth: (1) retail; (2) industrial manufacturing and automotive (IM&A); (3) high-tech; (4) healthcare. These together constitute 76% of Singapore's trade in Asia. Among these four segments, trade in high-tech, which accounted for 51% of Singapore's trade with the rest of Asia in 2020, is expected to continue driving post-pandemic trade growth, riding Asia's wave of digitalisation. Asia-12 economies are already more digitalised than the global average while also advancing on digital adoption metrics at a faster rate.[1] Nearly 700 million people in Asia Pacific will join its Internet population by 2025, creating a new generation of e-commerce consumers.[2] Demand for semiconductors, a key component for many electronics goods, is therefore expected to grow in tandem.[3] Singapore is well positioned to ride this growth, with the economy's consistent investment in semiconductor manufacturing infrastructure enabling it

Exhibit 1

Singapore's trade with the Asia-12 is set to grow by 51% by 2030



Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC; AlphaBeta analysis

to capture future demand.[4] Integrated circuits are already its top non-oil exported good by value, positioning it to capture these opportunities.[5] A few key trade lanes will facilitate this growth. While estimates suggest that in the high-tech segment trade may slightly decline with China, Japan, and South Korea, trade with Australia and ASEAN markets could see rapid growth, offsetting this decline. Singapore's economic interdependence with Malaysia's ensures that high-tech trade between both economies continue to grow in the long term, while Singapore's trade with Vietnam could benefit from continued foreign direct investment from Singapore in key sectors such as manufacturing.[6]

Increased investment in supply chain innovation and high-quality infrastructure will also contribute to long-term resilience. Digital innovation will contribute to the development of Singapore's supply chains, with key technologies that improve supply chain productivity expected to be deployed at scale in the coming years, including in robotics and automation in warehouses, blockchain-based inventory management, and smart tracking of cargo. The Singapore government's Logistics Industry Transformation Map, which outlines key investments and jobs targets for the industry and targeted projects to integrate digital technologies across the supply chain, is expected to guide this development.[7]

Regional geopolitics and uneven development of logistics infrastructure are key risks for Singaporean businesses looking to capitalise on this opportunity

Despite the significant potential that intra-Asia trade holds for Singapore, there exist a range of barriers to greater regional trade today across Asia that may intensify over the coming decade. Singaporean businesses surveyed for this study indicated tariffs and other punitive measures as the top barrier to trade, among five other barriers identified (Exhibit 2). These six barriers remain largely unaddressed by policy and business action due to trade tensions, supply chain shifts, and uneven investment and engagement of MSMEs in supply chains.

As a result of these barriers, Singapore's trade with the Asia-12 could decline by 2030. Trade could total USD341 billion in this "Deglobalisation" scenario (Exhibit 3) – equivalent to a 24% fall from 2020 levels as compared to a 51% rise in the previous scenario.

Intensifying geopolitical tensions contribute significantly to these trade barriers. Geopolitical risks such as territorial, economic, and political disputes between other economies have proven detrimental to trade in the past, particularly in the high-tech and retail segments. ASEAN's consensus-building and decision-making norms further stymie economic progress and cooperation – despite deeper economic integration over the past few decades, trade remains hindered by ASEAN members' reluctance to harmonise their standards and practices. As a regional trade hub that is highly dependent on the free flow of goods and people, geopolitical tensions that create strict or restrictive trade policies across Asia disproportionately damage Singapore's long-term trade prospects.

Uneven progress in developing logistics infrastructure across the Asia-12 could constrain Singaporean businesses' ability to serve centres of demand in rapidly developing economies. Lack of high-quality infrastructure in overseas markets can limit the potential for Singaporean businesses to capitalise on the trade opportunity, with dated technology and inefficient supply chains restricting logistics capacity. Despite best efforts, there remains an infrastructure financing gap worth USD138 billion annually across Asia Pacific for just private investors, with key gaps to fill in markets such as Indonesia and Vietnam.[8] This figure would potentially be three times higher if it includes public investment, implying much needed investment by governments.

Finally, pressures caused by the COVID-19 pandemic, and rapid advances in robotics and automation limit the flow of trade. These trends could expose a shortage of labour, skills, and shorten supply chains as cost competitiveness shifts, restricting further trade for Singaporean businesses. Two-thirds of Asian businesses surveyed by the Asian Development Bank (ADB) in 2021 stated that they planned to source more goods locally in the coming years – constraining the potential for Singapore to trade more intensively with markets more distant from home.[9]

Exhibit 2

Businesses in Singapore face six barriers to greater regional trade

Top barriers to trade in Singapore

Ranking based on respondents conducting trade in Singapore

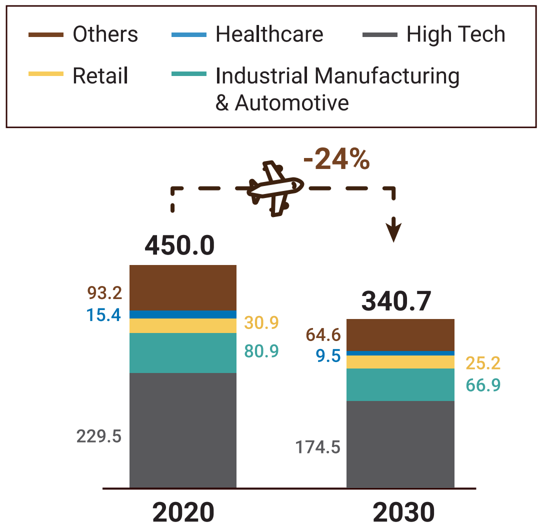
SOURCE: Industry survey of 198 businesses that conduct trade in the Asia-12 economies; AlphaBeta analysis

Exhibit 3

Singapore's trade with the Asia-12 may decline when trade is restricted

Singapore's trade with the rest of Asia-12

USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

Proactive effort by governments and businesses is needed to capitalise on the intra-Asia trade opportunity

Multistakeholder action is required to reduce impediments to regional trade and harness the opportunities to steer intra-Asia trade towards take-off. Action by businesses or government alone is not enough to address the key barriers to trade – active involvement by all stakeholders within the region and across the supply chain is key. Singaporean stakeholders must contribute to three main areas for multistakeholder action across the region: (1) Negotiate comprehensive regional economic partnerships that address tariffs, harmonise standards, simplify customs, promote MSME competitiveness, and ensure cooperation and diplomacy in the event of geopolitical disputes; (2) Collaborate on harmonising product standards by creating meaningful partnerships between business leaders, trade associations, certification bodies, and regulators; (3) Build resilience into supply chains via public-private investment.

Businesses with trade interests in Singapore and those in the logistics sector must proactively account for opportunities from intra-Asia trade and build resilience against potential headwinds. Three key actions that can be taken by businesses include digitalising completely, diversifying supply chains, and promoting integration of MSMEs into regional supply chains.

01

Digitalise comprehensively

Digitalise comprehensively, particularly in advanced technologies. The pandemic has pushed many organisations to digitalise their operations for better connectivity and efficiency. In Singapore, around 73% of businesses surveyed by the International Data Corporation (IDC) in 2020 indicated that they sped up their digitalisation efforts during the pandemic.[10] However, there could be greater adoption of advanced technologies such as artificial intelligence (AI) or Internet of Things (IoT) – 45% of Singaporean companies surveyed by IBM had not utilised AI.[11] These advanced technologies offer firms novel ways to drive productivity and mitigate supply chain disruptions – for example, AI can be used for dynamic route planning and identifying the most cost- and time-effective routes.[12] AI-enabled tools that can analyse and identify tariff codes or automatically input customs data could also smoothen regulatory import-export procedures for businesses, making trade simpler and more efficient.

02

Diversify supply chains

Plan for both headwinds and opportunities by diversifying supply chains into resilient trade routes and targeting high-value and high-growth trade routes. Diversifying supply chains has become critical to building resilience in trade flows that faced severe disruptions during the COVID-19 crisis. Many trade routes offer opportunities for resilient growth when considering trade in Singapore (Exhibit 4), including key ASEAN partners such as Malaysia, Indonesia, and the Philippines. In particular, trade between Malaysia and Singapore is expected to remain resilient, given their deep economic interdependencies in manufacturing, agriculture, and commodities trade. On the other hand, in a scenario where trade grows by half in value, a range of high-value and high-growth trade routes could be available for Singaporean businesses (Exhibit 5). Across all segments except high-tech, China is expected to remain the economy's largest trade partner within the coming decade, similar to today, despite some expected declines. Uniquely, Malaysia and Indonesia are expected to be both high-value and high-growth trade lanes for Singapore. In addition, untapped trade routes with Australia and other ASEAN markets offer strong growth potential. Trade with Australia could be supported by greater facilitation of e-payments and digital tools through the Digital Economy Agreement.[13] Companies such as Singapore-based online shopping and reward platform ShopBack and leisure goods manufacturer Secretlab have expanded into underserved markets like the Philippines. Businesses can use consultancy tools like UPS's Trade Assist™ to look at how they can reconfigure their supply chains while reaping benefits such free trade agreements offer.

03

Partner with and integrate MSMEs

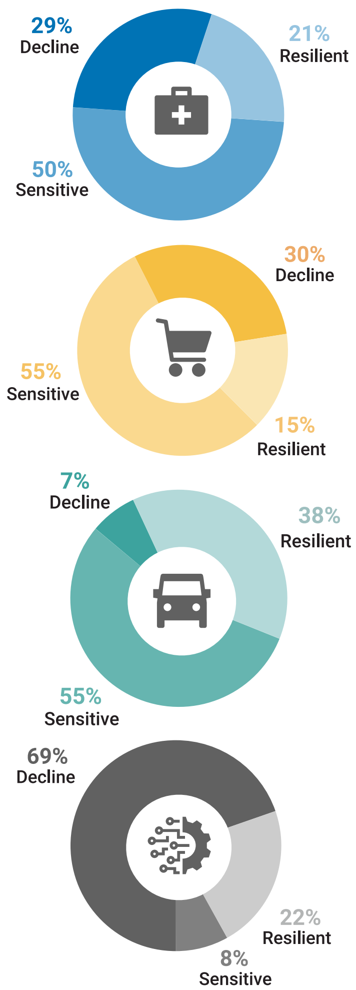
Partner with and promote deep integration of MSMEs into regional supply chains. MSMEs typically face higher costs in navigating trade barriers and often lack the scale of operations needed for trade profitability. Around 60% of MSMEs in Singapore surveyed by QBE Insurance highlighted that they were unsure of or have no intention of expanding internationally.[15] To reduce these costs and increase scale, larger Singaporean companies can lead and partner with MSMEs to supplement resources or develop tools that enable them to export overseas.[16] Through government-led initiatives such as the PACT Programme, supported by Enterprise Singapore, larger businesses can receive subsidies when supporting MSMEs in co-innovation and internationalisation projects.[17] Digital tools developed by logistics providers can also provide critical trade information to MSMEs. UPS offers a range of plug-and-play application programming interfaces (APIs) that allow businesses to get estimated duties, taxes, and brokerage fees, identify restricted entities, access market-specific customs data and documentation, and prepare paperless invoices for cross-border shipments. This leads to fewer customs delays and enables businesses to track their costs. For businesses selling online, UPS's Digital Access Program works with e-commerce platforms to integrate shipping into the customer purchasing journey, enabling small businesses to focus more on selling while leveraging their logistics partners. Training initiatives by larger businesses on how to adopt these tools have also shown to assist these MSMEs in leveraging digital tools successfully and enabling them to capture demand overseas.[18]

Exhibit 4

Firms can invest in resilient trade routes within each segment to hedge against supply chain shocks

Share of Singapore's trade with the Asia-12 sensitive to geopolitical shocks, by segments[1]

Share of each priority segment trade value in 2020 (%)



Top resilient trade partners by value today

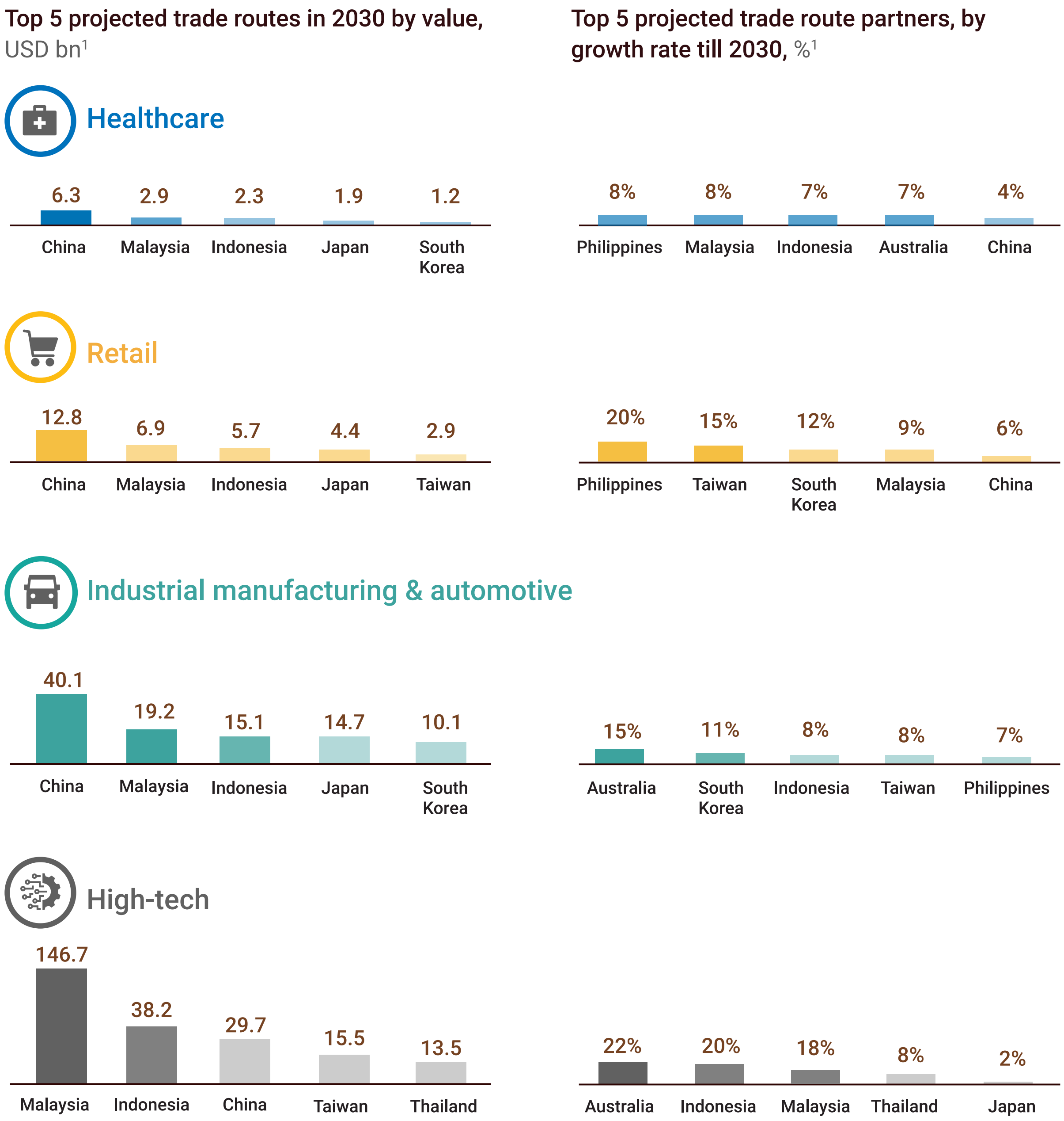
Top resilient trade partners by value today	
Malaysia Indonesia Philippines	Healthcare
Malaysia South Korea Taiwan Philippines	Retail
Malaysia Indonesia Thailand Vietnam Australia	Industrial manufacturing & automotive
Malaysia Thailand Indonesia Australia	High-tech

1. Each figure represents a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either worst-case or optimistic scenarios, while sensitive trade refers to trade routes that may see positive growth only within the optimistic scenario. Declining trade refers to trade routes that may see slight contractions regardless of either.

SOURCE: ITC; AlphaBeta analysis

Exhibit 5

China and Malaysia will remain key trade partners across all segments, while ASEAN markets offer growth opportunities



1. Projections are based on an optimistic scenario of Asia's trade environment, as outlined in Chapter 1 of the main report, where intra-Asia trade will take off and be driven by trends such as regional trade agreements, supply chain innovations, and a rise in digitalisation. These projections should be taken as an ideal outcome rather than guidance.

SOURCE: ITC; AlphaBeta analysis

Endnotes

1. The World Bank's Digital Adoption Index (DAI) for businesses, with an index of 0 to 1, measures businesses' use of digital tools to increase productivity (with 1 being the highest). See World Bank (2016), *Digital Adoption Index*. Available at: https://www.worldbank.org/en/publication/wdr2016/Digital-Adoption-Index
2. GSMA (2020), *The Mobile Economy Asia Pacific 2020.* Available at: https://www.gsma.com/mobileeconomy/wp-content/uploads/2020/06/GSMA_MobileEconomy_2020_AsiaPacific.pdf
3. Sources include: Deloitte (2020), The semiconductor industry in Asia Pacific - The Asia Pacific "Big 4". Available at: https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/technology-media-telecommunications/cn-tmt-rise-of-the-big-4-en-082820.pdf;
4. Business Times Singapore (2021), "Singapore will keep wooing semiconductor investments: Gan Kim Yong." Available at: https://www.businesstimes.com.sg/government-economy/singapore-will-keep-wooing-semiconductor-investments-gan-kim-yong
5. The World Bank (2021), "Trade summary for Singapore." Available at: https://wits.worldbank.org/countrysnapshot/en/SGP
6. Sources include: Business Times Singapore (2022), "Singapore companies remain keen on Vietnam amid pandemic, with Singapore as largest foreign investor: Tan See Leng." Available at: https://www.businesstimes.com.sg/government-economy/singapore-companies-remain-keen-on-vietnam-amid-pandemic-with-singapore-as; Enterprise Singapore (2021), "Singapore is top investor in Vietnam for 2nd year running." Available at: https://www.enterprisesg.gov.sg/media-centre/news/2021/december/singapore-is-top-investor-in-vietnam-for-2nd-year-running
7. Government of Singapore, Ministry of Trade and Industry (2016), "Logistics Industry Transformation Map." Available at: https://www.mti.gov.sg/ITMs/Trade_Connectivity/Logistics
8. AlphaBeta, Temasek, and World Economic Forum (2021), *New Nature Economy: Asia's Next Wave.* Available at: https://alphabeta.com/wp-content/uploads/2021/09/210917-new-nature-economy-asia_high-res_spread.pdf
9. Asian Development Bank (2021), *Asia-Pacific Trade Facilitation Report 2021*. Available at: http://dx.doi.org/10.22617/SPR210365-2
10. Business Times Singapore (2020), "73% of Singapore businesses speeding up digitalisation amid Covid-19: study." Available at: https://www.businesstimes.com.sg/government-economy/73-of-singapore-businesses-speeding-up-digitalisation-amid-covid-19-study
11. The Straits Times (2021), "1 in 2 companies in Singapore has sped up AI roll-out in the wake of Covid-19: Study." Available at: https://www.straitstimes.com/tech/tech-news/1-in-2-companies-in-singapore-has-sped-up-ai-roll-out-in-the-wake-of-covid-19-study
12. EY Singapore (2020), "Study of the Impact of Industry 4.0 on Singapore's Logistics Workforce." Available at: https://www.wsg.gov.sg/content/about/jobs-transformation-maps/logistics-sector.pdf
13. Enterprise Singapore (2020), "Singapore and Australia deepen bilateral ties with raft of new agreements." Available at: https://www.enterprisesg.gov.sg/media-centre/news/2020/march/singapore-and-australia-deepen-bilateral-ties-with-raft-of-new-agreements
14. Channel News Asia (2022), "The Big Read: Can Singapore firms expanding overseas become the next global success story?." Available at: https://www.channelnewsasia.com/singapore/big-read-singapore-business-expand-overseas-global-2603266
15. Singapore Business Review (2022), "International expansion on the backburner for 60% of SMEs." Available at: https://sbr.com.sg/economy/news/international-expansion-backburner-60-smes
16. The Business Times (2018), "Collaborations key to going global." Available at: https://www.businesstimes.com.sg/sme/collaborations-key-to-going-global
17. Enterprise Singapore (2018), "PACT Programme." Available at: https://www.enterprisesg.gov.sg/financial-assistance/grants/for-partners/pact-programme/overview
18. Google Singapore (2017), "Go Digital - SG SMEs Success Story - Royal Insignia." Available at: https://www.youtube.com/watch?v=lckhdllyCJU