Speeches

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Welcome Remarks by Mr Edward S. Robinson, Deputy Managing Director (Economic Policy) & Chief Economist, Monetary Authority of Singapore, and Member of the ABFER Council at the 12th Asian Monetary Policy Forum on 23 May 2025

Good morning.

Deputy Prime Minister Heng Swee Keat,

Managing Director Chia Der Jiun,

Distinguished speakers, central bank colleagues,

Honoured Guests.

Introduction

1. Thank you for taking the time to be here for the 12th Asian Monetary Policy Forum. We are greatly honoured that DPM Heng Swee Keat has been able to join us. He provided the impetus to the inception of ABFER/AMPF a decade ago and has continued with strong counsel and encouragement. DPM as a policymaker internalises the economic way of thinking. He applies careful and thoughtful analytical reasoning based on the evidence to a range of policy issues, including enhancing the economy's macro-competitiveness. He has made significant contributions to the strengthening of Singapore's international trade relationships and holds a deep conviction in the benefits of comparative advantage and broader economic complementarities across countries. DPM has played a pivotal role in ingraining the principles and practices that define Singapore's robust, forward-looking approach to economic policy making.

The Global Economic Context

2. In 2024, the global economy was showing clear signs of recovery. Inflation was easing, growth was holding steady at potential, and central banks were beginning to cut policy rates. Yet today, prospects have darkened against conditions of underlying unpredictability.

The Economics of Protectionism

3. Economists readily acknowledge the firm case against protectionism. Import taxes destroy trade benefits by disrupting efficient resource allocation and reducing consumer surplus, as domestic households face higher prices and fewer choices. Both the targeted and tariff-imposing economies suffer.

4. For some, the need to tackle persistent external deficits overrides such efficiency considerations. But improvements to the trade balance from tariff-induced import reductions are likely to be partially offset by currency appreciation.[1] The overall external deficit is ultimately determined by fiscal policy[2] and private sector savings decisions. While these may adjust as expectations about goods prices shift due to tariffs, any changes occur only at the margin. When trading partners retaliate, even the marginal benefits dissipate.

5. Tariffs might be viewed as a way to reverse the trend decline of manufacturing in output and employment. However, the structural forces of technological change, and shifting consumer spending patterns driving the falling share of manufacturing employment cannot be reversed.[3] This holds true regardless of whether countries run trade deficits or surpluses in the manufacturing sector[4]. The alternative approach is in creating inclusive, high-quality jobs within the services sector adapted to new technologies such as AI. This demands structural policies, especially job skills training, to ensure inclusive job creation.

6. Global integration of supply chains amplifies the potential damage from trade wars. About two-thirds of international trade now take place within cross-border global value chains[5], more than at any time in the postwar period. Components cross borders multiple times before final assembly, so any tariff-induced disruptions to the production process can be material. Earlier investments in cross-border production networks made under a free trade regime could face an abrupt repricing of Tobin's q, potentially creating a wave of "stranded assets"[6]. We may be about to discover the full consequences of throwing sand into the gears of tightly integrated production and trade links.

7. The events taking place today brings to mind Paul Samuelson's landmark JEP article published some twenty-one years ago[7]. He had considered a theoretical scenario in which an advanced economy could suffer income losses if a large emerging trading partner were to experience a strong catch-up in the productivity of goods it had previously exported. Yet we know that even in such a case it is unlikely that the advanced economy would be any better off if it added tariffs. Samuelson did however express concern about the inadequacy of transfers from globalisation winners to its losers.

Impact on Asian Economies

8. For Asia's small open economies, global tariffs pose a major challenge. With trade dependencies in the region sometimes exceeding 100% of GDP, the ripple effects may be severe: reduced production, and possibly, renewed capital outflows, raising the prospect of a destabilising loop between the real and financial sectors.

9. Faced with such measures, Asia's open economies must remain agile, and not succumb to tit-for-tat retaliation. They should continue to heed the old advice to avoid throwing rocks into their own harbours[8], and intensify regional trade integration initiatives including in digital and services trade and investment. These efforts may serve as building blocks for future multilateralism when the tide shifts.

Policy Adjustments

10. The trade disruptions have already begun to displace the macro equilibrating path that we saw in 2024. Accordingly, there needs to be a reset of fiscal and monetary policies. A tariff war can deliver both demand and supply shocks. For an export-oriented economy like Singapore, demand shocks probably dominate. However, for countries that impose retaliatory tariffs – and possibly for others as well - there will be negative supply shifts. Such adverse supply shocks will worsen the growth-inflation trade-off and complicate monetary policy setting. In many countries, higher public sector debt carried over from the COVID period could make this trade-off even more difficult.

11. At the same time, it must be emphasised that the right instruments need to be used to secure the optimal path of adjustment for global imbalances, with purposeful planning underpinned by an enlightened commitment to multilateralism. A hastened expediency that induces fragmented impulses to the global monetary system risks severe financial ruptures and a deep global recession.

A More Optimistic Pathway Ahead

12. None of the consequences identified above are pre-determined and there might be a less treacherous path. We might contemplate a more benign scenario unfolding as follows.

13. Nations resist the seductive pull of retaliation. Trade adapts, becoming more regional and services intensive. The global economy converges towards generally stable inflation with some easing of interest rates, while growth slows to slightly below trend growth for a while.

14. This scenario would require some form of coordinated action. Large current account surplus countries would expand public spending and accept some expenditure switching through real exchange rate appreciation. Deficit countries would adjust in the opposite direction. Such deficit and surplus rebalancing takes place in a measured way and stable capital flows fund the compressed shortfalls. Resilient financial markets efficiently intermediate these shifts. International financial institutions continue in their oversight roles, while geopolitical tensions begin to dissipate.

Closing Remarks

15. This optimistic pathway remains within reach, even as we grapple with current challenges. We have two formidable speakers to guide us through the maze this morning. Prof Hélène Rey will present this year's commissioned paper. She has been at the forefront of research on spillovers of monetary policy. She provided many countries in the region the analytical basis for coping with what can often present as an open economy dilemma.

16. Before that, few voices have articulated the dangers of protectionism as clearly as Dr Adam Posen. As president of the Peterson Institute for International Economics and a leading voice on international macro and finance, he has consistently exposed the self-defeating nature of protectionism. His contributions span inflation targeting, Japan's deflation battle, and UK monetary policy. Adam has generously shared insights with the MAS over many years, by bridging the gap between theory, and practice of economic policymaking. In a March 2024 interview with the FT's Unhedged, he suggested that people and businesses were much more resilient than we give them credit for[9]. This resilience may prove crucial as we navigate today's uncertainties. I now welcome Dr Adam Posen to deliver his Opening Address for the 12th AMPF.

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[1] Furceri, Davide., Swarnali A. Hannan., Jonathan D. Ostry., and Andrew K. Rose (2019), Macroeconomic Consequences of Tariffs, IMF Working Paper No.2019/009.

[2] James, Harold (2025), “How Trump’s Anti-Globalism Could Backfire”, Project Syndicate, January 27.

[3] Lawrence, Robert Z. (2025), Behind the Curve: Can Manufacturing Sill Provide Inclusive Growth?, Peterson Institute for International Economics.

[4] Ibid.

[5] Dollar, David (2019), “Invisible Links”, Finance & Development Magazine, June.

[6] See for example, Paul Krugman’s recent conversation with Mary Lovely on 8 March 2025. Krugman, Paul (2025), “Tariffs! Tariffs! Tariffs! In Conversation With Mary Lovely: My home subject has gotten too interesting”, Substack, https://paulkrugman.substack.com/p/tariffs-tariffs-tariffs-in-conversation .

[7] Samuelson, Paul A. (2024), “Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization”, Journal of Economic Perspectives, 18(3): 135-146.

[8] The Cambridge economist, Joan Robinson used the “throwing rocks in your harbour” metaphor to warn about the self-destructive nature of protectionism. Referred to, for example, by Jagdish Bhagwati in, Bhagwati, J. (2002), Free Trade Today, Oxford University Press.

[9] Armstrong, Robert., and Ethan Wu (2024), “Unhedged - Adam Posen: We overlooked how resilient people are”, Financial Times, March 1.