

## SINGAPORE BUDGET 2019

## COMMENTARY

## Why a forward-looking Budget is needed

By Tan Khee Giap and Tan Yan Yi

**A**T AN international conference in Budapest organised by the Central Bank of Hungary last week, central bankers were debating intensely on the effective role of central banks. Singapore was repeatedly identified as an exemplary model where the central bank and the government have consistently done well in crisis management.

The discussion of the Singapore model was dominated by how Singapore effectively managed crises, leading to a swift rebound from every economic recession or slowdown. However, I thought the debate largely missed the point – the severity of the crisis in the first place was mitigated due largely to strong and stable macroeconomic fundamentals and efficient resource allocation for firms and individuals within the micro-economic environment.

Singapore's fundamental strategy in effective crisis management time and again is in fact rooted and rendered easier on the premise of preventive and pre-emptive moves rather than cures. The recent prudent regulations on property purchases, sales and bank-related borrowings, coupled with pre-emptive market cooling measures, are just a case in point.

For a small and open economy, Singapore's macroeconomic condition is constantly and strongly influenced by external factors. These include business cycles, financial turmoil and tumultuous political changes coming from neighbouring Asia or economic volatility transmitted from western economies in an inter-connected and inter-dependent world. Singapore's fundamental competitiveness lies in her ability to seize opportunities by rendering herself relevant in order to stay ahead of the learning curve in global trade and investments. Singapore's longer-term survival is rested upon her continuing to actively pursue globalisation under the rule-based World Trade Organization.

When Singapore was the rotating chairman of Asean in 2018, regional Free Trade Agreements (FTAs) such as the Regional Comprehensive Economic Partnership (RCEP) were given a further push for the last mile of completion. Singapore's consistent support for the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is clearly stated; it in fact first founded TPP together with three other member countries.

It would not be surprising either if early exploration and preparation for a bilateral FTA between Singapore and the United Kingdom is

already being contemplated by senior civil servants before Brexit comes into effect. Singapore's unrelenting leadership in FTA for greater economic connectivity and regional integration is widely recognised.

In 2017, Singapore for the first time rose to become the third most competitive financial centre in the world after London and New York, overtaking Hong Kong from fourth position, according to a London-based think-tank. Thus, establishing Singapore as an infrastructure evaluation, arbitration, investment and financing hub in Asia and promoting internationalisation of renminbi are simply part of new opportunities that have surfaced under the Belt and Road Initiative (BRI) which we must quickly seize upon.

**Urbanisation drive**

Urbanisation is the next phase of development for China and India and the growth of their middle class is powering their domestic consumption. Singapore's businesses and government-linked companies must gain deeper footholds in their urbanisation drive by setting new standards. As a citystate, we do have the advantage of providing comprehensive smart urban solutions. In the midst of their expanding middle class which possesses strong purchasing power, Singapore as a cosmopolitan city offers an attractive modern lifestyle. This is especially highlighted by several international studies that have ranked Singapore very highly in terms of e-commerce, digitalisation and city liveability.

Firstly, seizing opportunities arising from new development trends does require a conducive business environment and a competitive corporate tax structure which are vital for small and medium enterprises (SMEs) to transform and build strong foundations to venture abroad. Good fiscal discipline with forward looking budgetary planning, and ensuring general price and exchange rate stability at home are preventive measures for companies to better cope with the next economic downturn or financial crisis, and critical for healthy and robust business expansion.

Secondly, efficient allocation of government resources for provision of public goods and services, transparency of regulations, good governance and firm rule of law at the micro-economic level are the sine qua non of incentivising businesses and individuals to realise or maximise their potential economic contributions. These are strong foundations that are necessary for the economy if our longer-term average growth in gross domestic product

(GDP) is to stay at the higher band of 3 to 5 per cent per annum which would also mean more job choices for citizens.

Thirdly, whether it is soft capacity building by investing in people or building hard physical infrastructure, both are critical in maintaining Singapore's international competitiveness. Markets often fail when it comes to capacity building and skill upgrading. Government must thus act as a market enabler. In the era of rapid technological and digital advancement, transformation of companies can be difficult in terms of management, marketing and manpower adjustments. Multi-stakeholder-driven Industry Transformation Maps involving major industry players, unionists, business professionals, academics and the government would be more appropriate rather than leaving it to the more painful creative destruction by market forces for adjustments.

When preparing a national budget, the finance minister would usually examine the forecast GDP growth, look at the estimated government revenues versus government expenditures, and in the case of Singapore over the last two decades, factor in the amount of Net Investment Income (NII) that can fortunately be drawn upon to help in the budgetary shortfalls.

From 2011 to 2018, Singapore's annual GDP grew at the average of 3.7 per cent. In the econometric model simulation by Asia Competitiveness Institute at Lee Kuan Yew School of Public Policy (ACI-LKYSP), with several assumptions including labour-capital quality growth and one per cent employment growth, going forward if the Singapore economy were to grow at 2.79 per cent per year, productivity growth would have to be at 1.79 per cent per annum.

Government revenues tend to fall short of government expenditures resulting in deficit of Primary Budgetary Position (PBP) in 2002, 2003, 2004, 2009, 2015, 2016 and 2018, especially in years of low growth. NII, together with the PBP, and Special Transfers (STs) sum up the Overall Budgetary Position (OBP), which can still be in deficit as in 2001, 2003, 2006, 2007, 2008, 2009, 2015 and 2018, especially when STs were beefed up to fund relevant public policies.

Contributions of NII to the OBP have gone up from averaging \$2.72 billion per year over the 2000-2008 period to nearly tripling to \$8.13 billion per year between 2009 and 2015, and almost doubling to \$14.94 billion per year from 2016 to 2018. In challenging years ahead, what if Temasek Holdings and GIC fail to deliver those expect-

ted profits, of which 50 per cent must be locked in the national coffers under the custodian of the President of Singapore, to supplement the future OBP?

Urgent demand for greater government expenditure for healthcare will pose a substantial strain on the Budget in light of Singapore's rapidly ageing population. Moreover, public investment in quality education from infancy, life-long learning and targeted skills-driven growth are pressing and must be promptly addressed to ensure a more inclusive society, with Singapore's 2018 Gini coefficient registering at 4.0 after STs.

Additional expenditure to meet growing infrastructure demands as Singapore becomes even more cosmopolitan is to be expected. Expansion of airport and seaport will be needed if Singapore is to remain as a major logistics hub in Asia. The tail-end of the on-going tax restructuring, which aims to shift dependency from the cyclical indirect corporate and personal income taxes to the direct goods and services tax, will ensure a more resilient and sustainable business environment, both of which are paramount to attract more foreign investments.

**Trade protectionism**

We are observing the daily worsening of global trade protectionism and rising nationalism worldwide, including most recently from neighbouring Malaysia and Indonesia. Moreover, homeland security continues to be threatened by terrorism, while technology-driven Industrial Revolution 4.0 has caused disruptive changes and sown job and economic uncertainty. These challenging developments and trends are unlikely to go away in the medium term.

A forward looking budget ought to strengthen the foundations for delivering macroeconomic stability, set aside ample financial resources with policy restructuring measures to promote micro-economic efficiency and invest in soft and hard capacity building. However, the public at large and the business community need clear assurances from the government, and the finance minister in particular, whether Singapore will have, in time to come, sufficient financial resources to respond to these potential disruptions and challenges nimbly and aptly.

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