Institute of Policy Studies

Key Takeaways from the 15th Singapore Economic Roundtable, 23 May 2011

By IPS Economics and Business Cluster

Background on the Singapore Economic Roundtable

Started in 2003, the Singapore Economic Roundtable (SER) has successfully brought together a selected group of economists, academics, business leaders and policy makers twice-yearly to discuss pertinent issues facing Singapore's position in the global economy. The SER assesses current monetary and fiscal policy in the light of changing economic conditions and also features a special topical session which looks at longer term structural challenges facing Singapore. Conducted along Chatham House rules of confidentiality, the SER provides a forum for experts to articulate their views and recommendations, and is intended to generate a frank and open exchange of ideas and concerns.

The 15th SER was convened on 23 May 2011 and featured three economists from the Monetary Authority of Singapore and the private sector. The panel speakers shared their analysis of recent economic developments, macroeconomic outlook, and implications for policy making in Singapore. Two overseas and local academics were also invited to re-examine industrial policy in Singapore. The presentations were followed by a series of fruitful discussions among the forty participants present.

Proceedings from the 15th SER will be documented in an IPS publication released later this year. A brief summary of key issues of interest surfaced during the 15th SER are provided here:

No debate on current cyclical issues

Participants appeared to accept the views put forward by MAS and private sector participants that global growth was broadly on track despite some deceleration, that Singapore would continue to enjoy reasonably good economic momentum and that inflation could be contained under the current monetary stance. There were some differences in view on the strength of growth going forward between the two private sector economists but no major divergence emerged in the discussion.

Instead, the focus of discussion was almost entirely on structural issues. Participants were well aware that Singapore was at a possible turning point in policy after the recent general election, with voters expressing strong views on key aspects of economic policy.

Quality versus quantity of growth

Participants noted that if the objective of policymaking is to maximise welfare and not gross domestic product (GDP), it is possible to have a lower rate of GDP growth and stronger social safety nets simultaneously. Well-designed transfers (e.g., minimum wage) can be effective as low income workers have a high marginal propensity to spend and this provides a positive dynamic for increasing consumption.

There was considerable debate but no clear consensus on immigration policy regarding foreign workers. Some feared that immigration restriction and wage pressures could cause a structural rise in inflation. Others feared that Singapore's appeal to multi-national corporations (MNCs) would be blunted, thus hurting its growth prospects. On the other side of the argument, it was felt that short term costs needed to be paid if Singapore were to transition to an economy driven by high productivity and not reliant on increasing foreign worker inflows.

Structural changes pose significant policy challenges for Singapore

Some of the private sector participants warned that how MNCs made their decisions on where to locate their operations was changing There was a growing risk that MNCs will relocate their regional hubs out of Singapore and into cities in China or other large markets so as to tap into expanding markets of final demand for their products there.

A number of economists felt strongly that Singapore's basic approach to monetary management through the use of the exchange rate needed re-thinking. Concerns on how this policy framework was becoming more limited in its effectiveness were expressed, along with worries that the continual appreciation of the Singapore Dollar (SGD) would be untenable, even though MAS had pointed out that so far its policies had succeeded in mitigating the impact of rising global food and energy prices.

The oligopolistic nature of key sectors was of concern to several economists and private sector corporate leaders present. For example, retail and commercial property might now be more oligopolistic due to the rise of real estate investment trusts (REITs). Such practices can push up costs tremendously for small and medium enterprises (SMEs). Is there a need to re-examine competition policy, consumer protection policy and fair trade policy? Participants raised the point that Singapore is a small market where it is difficult for effective market mechanisms to achieve good competition – regulated oligopolies, "pseudo-competition" and various inefficiencies have since arisen, e.g., in the transport sector, and need to be re-examined.

Approach to social safety nets

One participant noted that Singapore appeared to have substituted asset enhancement or inflation as a substitute for a social safety net. Growth and welfare have been weighted to asset ownership, loosely mirroring the United States before the subprime crisis. He argued that targeted social transfers would be a more efficient social policy than asset enhancement as support for old age. Or else, the consequences of a nationwide asset bubble bursting unexpectedly could be politically and economically devastating.

A new approach to industrial policy

Complementary social policy must be at the heart of successful industrial policy. People only take risks when adequate safety nets exist. Hence, the construction of social safety nets is not simply a social justice consideration but one that affects attitudes towards risk-taking. In a maturing economy like Korea's, lack of sufficient state welfare has in fact become a hindrance to industrial development. Singapore has come to a stage where it needs to seriously consider social policy and its link to productive development.

Some practical issues for industrial policy were raised:

- Government policy must complement and produce an ecosystem of complementary market policies to help build emerging industries. For example, China has become the world leader in producing electric bicycles, where industries include production of charging parts and components and where the government has banned gas-based bicycles in second-tier cities.

- Singapore can learn from Taiwan's consortium approach to getting SMEs to jointly invest in research and development (R&D), enabling a speedy technology takeoff. Thus, like Taiwan, Singapore may be able to overcome problems of size and capacity.

- Singapore should take advantage of growth in emerging market (EM) economies and invest in lower-cost innovative solutions targeted at mass consumers in these economies. Currently, Singapore has the technical capacity that EMs may not have developed yet, and there is a need to diversify markets for innovation to capture these EMs within the window of time we have, rather than compete with advanced economies on innovations targeted at advanced markets.

- Singapore should leverage the entry of top Indian and Chinese students in educational institutions here, to work on innovative solutions for problems in their home countries. For instance, the emergence of the Chinese electric bicycle industry did not result from a focus on advanced economies – Singapore needs a fundamental relook on how to build linkages with EMs.

- Singapore can also use its domestic market to test innovations in service industries, tying service innovation to social policy and to create jobs in healthcare and caring for the elderly. These may be service industries where the best innovation results from learning by doing.

The special focus session on the re-examination of industrial policy generated alot of interest among SER participants. As Singapore currently experiences some political change following the recent general election, discussions at the 15th SER reflected growing interest in the sustainability of our economic and industrial model, potential for change, and suggestions on how to recalibrate existing policies.

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