

## Key Takeaways from the 16<sup>th</sup> Singapore Economic Roundtable, 8 November 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 16<sup>th</sup> SER was convened on 8 November 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 academics were also invited to examine the state of regional integration in Asia, steps going forward, and implications for Singapore. The presentations were followed by a series of fruitful discussions among the forty participants present.

Proceedings from the 16<sup>th</sup> SER will be documented in an IPS publication released later this year. A brief summary of key issues of interest surfaced during the 16<sup>th</sup> SER are provided here:

### ***Economic Outlook and Implications for Policy***

1. The global economy is turning more hostile: The Maybank Stress Index warns of severe risks ahead in the near term. Beyond that, structural adjustments will lead to a global environment of much lower growth. Growth in 2004 to 2007 had been supercharged by unsustainable debt.
2. The structure of Singapore's economy has shifted in a way as to deepen this vulnerability. Singapore is much more vulnerable than other Asian economies as its non-oil domestic exports remain heavily dependent directly or indirectly on G3 demand. Singapore's economy was seen as being more volatile than others as several key sectors of its economy were geared into the unsustainable components of recent global growth – finance, high-end tourism.

3. There is now much less concern with short term inflation but in the longer term Singapore may have to live with structurally higher inflation: Maybank's Trade Weighted Inflation (TWI) shows that inflation is mainly caused by domestic drivers such as a tight labour market causing high wage growth to fuel inflation. As Singapore's economic growth cools, these inflationary pressures will ease. However, the Baumol-Bowen/Balassa-Samuelson theoretical frameworks were used to show that in the longer term, differentials in productivity between the tradeable and non-tradeable sectors would result in structurally higher inflation in Singapore.
4. There are real challenges for what Singapore's optimal policy mix should be in the new normal – with headwinds to growth growing and inflation structurally higher in the longer term. Monetary policy will have to be combined with (a) more active fiscal policy targeted at supporting longer term growth drivers; and (b) continued use of macro-prudential measures to address asset inflation and related developments.

### ***Regional Integration – Current Status and Implications for Singapore***

5. ASEAN+3 integration has progressed: The current state of play shows East Asian Economic Integration focused in three areas, mainly trade and finance; macroeconomic policies; and monetary cooperation. Free Trade Agreements (FTAs) have boosted ASEAN+3 integration, as far as goods trade is concerned. Financial integration is low but increasing. Macroeconomic policies and monetary cooperation have been helped by the ASEAN+3 Economic Review and Policy Dialogue (ERP); Resource pooling arrangements under the Chiang Mai Initiative – Multilateralised (CMIM) and further boosted by the formation of the ASEAN +3 Macroeconomic Research Office (AMRO).
6. But much more needs to be done if businesses and ordinary people are to see direct benefits: Even though tariff barriers have been lowered via FTAs, major constraints on regional integration remain. The most important is the existence of significant non-tariff barriers. Rising intra-ASEAN inequality also makes it difficult to push the integration agenda further. Moreover, it looks like ASEAN centrality may not be realistic as the growing clout of China and India could see ASEAN sidelined.
7. Lack of leadership will continue to hamper a faster pace of integration within ASEAN. There is no strong country in ASEAN that is currently willing and able to play such a role effectively. Singapore, the most economically active country, is too small both in terms of size and political weight to play this role.
8. There is much skepticism about the role of AMRO: In particular, there were substantial doubts expressed about whether AMRO is up to the task of performing the required macroeconomic surveillance and providing timely data to avoid financial hazards. Would AMRO really be able to play the role that the International Monetary Fund (IMF) does under Article 4 which allows a fairly intrusive investigation of domestic economies. What value would AMRO add in comparison to the IMF – in a global crisis, ASEAN economies would need to win the confidence of global institutions instead of regional institutions such as AMRO.

9. There was not much that Singapore could do to promote ASEAN integration: By hosting AMRO, Singapore is contributing by helping ASEAN+3 develop a key crisis management institution. Singapore should work on promoting ASEAN connectivity - it could provide more financial support to other ASEAN countries so that physical infrastructure that enhances connectivity is built. In the longer term, Singapore should do what it can to reduce the development divide between the countries in ASEAN. Singapore should find economies of scale in the region.

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