

The Twenty-Fourth Singapore Economic Roundtable

By IPS Economics and Business Cluster

On 13 November 2015, the Institute of Policy Studies (IPS) held its biannual Singapore Economic Roundtable (SER). More than 30 participants comprising economists, academics, business leaders and policymakers came together to discuss pertinent issues relating to Singapore's economy. Started in 2003, the SER assesses current monetary and fiscal policy in the light of changing economic conditions, and also features a special topical session that looks at the longer-term structural challenges facing Singapore. Now in its twenty-fourth iteration, the latest SER examined the emerging trends that would shape Singapore's future development in addition to the usual discussion on cyclical factors affecting the short-term economic outlook. The roundtable, conducted under Chatham House Rule, was chaired by Manu Bhaskaran, Adjunct Senior Research Fellow of IPS.

The complete proceedings from the 24th SER will be documented in an IPS publication to be released later.

SESSION ONE: RECENT ECONOMIC DEVELOPMENTS

Economic Outlook for Singapore and the Region

The immediate growth outlook for the region around Singapore has dimmed. Export growth has shifted downwards due to a general slowdown in global trade. In addition, as China continues to move up the technological ladder, the vertical integration of its production process will intensify. As a result, its dependence on intermediate goods imports from the ASEAN region will decrease accordingly. Singapore's economic activity, due to the weak external backdrop, has been lacklustre in the past few months. Added to that is the weak positive spillover from a consumption-led recovery in the US, as the import of goods and services remains weak.

However, Singapore is adapting to the on-going changes of global supply chains. Although China's rising capabilities in the IT-intermediated goods space has led to some slowdown in related exports from the Asia region, the impact of this development could be mitigated by the strengthening trade linkages of emerging nodes in regional supply chains. Singapore's exports to CMLV economies (i.e., Cambodia, Lao PDR, Myanmar and Vietnam) are main sources of support. In the electronics space, Singapore's semi-conductors have benefited from a surge in demand from the region, especially in Vietnam's tech-trade. Deeper economic integration among ASEAN countries will herald new opportunities for Singapore's exporters.

Against this backdrop, Singapore's next phase of economic development drive will be characterised by a knowledge-based economy, where productivity gains will help overcome supply side constraints. Research and development (R&D) capabilities are important in a knowledge-based economy, and Singapore's government has pledged heavy investments, both in terms of capital and manpower. Government initiatives such as the Smart Nation programme will drive the corporate sector to adopt more ICT solutions. There is also an emphasis on increasing intellectual property (IP) assets, which is prevalent among major US IT firms. Given the importance of R&D, ICT and IP, ensuring a competent labour force of relevant technical expertise in these frontier industries will be critical for growth.

Labour Market and Monetary Policy in Singapore

Due to the softer economic backdrop and on-going structural reconfigurations in economy, labour market tightness has eased. However, pockets of labour tightness — especially for domestic-oriented sectors where demand is strong — will support higher wage increments. Resident wage growth is expected to pick up to 3.6% in 2015–2016, close to its 10-year historical average. Similarly, while general cost pass-through is expected to be subdued due to weak economic backdrop, sectors with higher labour share and more inelastic demand will experience stronger cost pass-through to consumers.

With regards to monetary policy, MAS reduced the S\$NEER (Singapore dollar nominal effective exchange rate) band slightly in October 2015, while maintaining a modest and gradual appreciation path. This decision took into account the weakened output growth of Singapore's economy, even as core inflation is expected to pick up gradually. This move is expected to be supportive of economic growth into 2016, while ensuring price stability over the medium term.

SESSION ONE: MACRO-ECONOMIC OUTLOOK FOR SINGAPORE AND IMPLICATIONS FOR POLICY

Singapore's 3-D Problem of Debt, Demographics and Deflation

Both household debt and corporate debt ratio in Singapore are high, contributed by the openness of Singapore's capital account in a loose global credit environment, which drove rapid credit expansion in both the household and corporate sectors. While high leverage can be sustained as long as macroeconomic conditions remain supportive, it increases the vulnerability of an economy from interest rate changes and declining asset price, both of which are happening in Singapore. This vulnerability is compounded by demographic trends of an ageing population and tighter immigration policy that limits workforce growth.

Deleveraging in the economy, which is required to prepare the economy for the next cycle of growth, typically happens through income growth and not debt reduction. This was the experience for Singapore after the Asian Financial Crisis, whereby the country pared down its debt to GDP level by boosting income. However, the current weak external backdrop of secular stagnation coupled with impending interest rate increases will limit economic growth and elongate the whole adjustment process. With inflation expected to trend flat or even negative, the option of shaving off debt through inflation is not available either. Nonetheless,

the risk of a cathartic boom-and-bust cycle is low, given that the risk of global external shocks required for it to materialise is improbable.

The macro-economic strategy for Singapore to drive economic development is to boost productivity. However, with demographics and productivity appearing to correlate — labour productivity tends to decline with age — an ageing population in Singapore could depress structural growth despite an intensifying productivity drive. Innovation through technology could nonetheless offer some solutions to overcome this challenge.

Singapore could also look to the Nordic countries for some lessons. Notwithstanding their small population, high median age, high GDP per capital, and lower working-age population growth, the Nordic countries are still able to achieve high productivity level. Education appears to be a key factor driving this outcome. Finland's education system, for example, is highly rated and promotes creativity. Teaching in Finland is a highly regarded profession, and a large amount of resources is committed to the national education system, which focuses much more on collaboration instead of competition, unlike in Singapore.

Monetary Policy Space under Evolving Labour Market Dynamics

Headline unemployment rates appear to overstate labour market tightness. Correspondingly, the worries about resultant wage pressures may have been overdone. Anecdotal evidence paints a different picture, hinting at a weaker correlation between unemployment rate and wage growth.

There is a strong need to extend the focus on jobs beyond quantity to quality as well. A skills mismatch in the labour market leading to inefficiencies in terms of job expectations may not be captured in headline employment figures, thus overstating the health of the job market. When examining labour market conditions, the exact contract terms of jobs should be taken into account too. Lastly, as the correlation between GDP and job vacancy appears to be holding up, recent growth weakness in GDP could suggest that job vacancy is set for a decline, either in quantity or quality terms.

This, together with external economic headwinds, raises the question of the growth and inflation effects of monetary policy. Singapore may have more room for more subdued exchange rate policy as long as inflation is kept under control. Nonetheless, the trade-off between short-term interest rates and looser monetary policy is notable. For example, SORs (Swap Offer Rates) have recently been driven up by the expectations of a Singapore dollar depreciation, and on balance, a diminished policy elasticity (in terms of spurring demand) could be used to argue for more policy cautiousness. Risk emanating from the balance sheet is also increasingly factored into monetary policy decisions. Hence, structural reforms to lift productivity, and the fiscal cushion that Singapore enjoys, are critical complements to monetary policy accommodation.

SESSION ONE: DISCUSSION

Reforming Education in Singapore

A suggestion was made on reforming the education system in Singapore to do away with the PSLE. It was noted that studies have found little correlation between early life test performance and future performance. Singapore could learn from Finland and consider doing away with the PSLE as it accentuates opportunity exclusion from an early age, a participant said. However, another participant cautioned that Finland's experience must be viewed in its local context, with its structural issues taken into account. In Finland, high vocation training take-up rate is partly due to the fact that the education system incentivises people to stay in universities for a longer time. Universities have little spare capacity to take in new students, resulting in more people enrolling in vocational institutions. Local realities like these are important factors that have to be accounted, he said.

Keeping Check of the Economy's Health

There was some concern over the lack of public data to measure the health of Singapore's economy, especially given that the economy could be at tipping point. It was pointed out that the few that exist were not even reported on a timely basis. For example, the Singapore's Composite Leading Index is often released a few months late, which renders the indicator ineffective. However, other participants were more sanguine, noting that several predictive indicators exist, although they also acknowledged that these indicators might not be sufficiently reliable. One suggestion given was to combine quantitative metrics with ground feedback and observations to get a better sense of the state of the economy.

Monetary Policy as a Policy Tool

Arguing against the view of some that monetary policy could be more aggressive in aiding the economy, a participant said that the burden of economic intervention should not fall entirely on monetary policy. There are other policy tools such as macroprudential policy and fiscal policy to help the economy adjust. He added that one should not just think of the impact of currency policy on economic growth, but also on financial stability too.

SPECIAL SESSION: SINGAPORE'S ECONOMY BEYOND 50***Determinants of Future Growth***

Singapore has historically relied on the input of foreign labour for development. The current structural transition is partly due to a moderation of unskilled labour growth in Singapore, which affects the composition of the labour force. In addition, the openness of the economy contributes to the volatility of growth. Being an open economy, developments in the global economy such as China's structural transition to a consumption-led economy, the end of the commodity super cycle, stresses in the financial markets of emerging economies, and a slowdown in trade growth will have a tangible impact on Singapore.

Singapore has to respond to these challenges. However, as an economy near the production-possibility frontier, technology imitation or adoption cannot remain as a strategy for growth. Instead, the Schumpeterian growth paradigm, undergirded by a culture of competition and continuous innovation, is more appropriate for Singapore's highly developed economy. Investment in education, especially post-graduate research, is key to support a vibrant research environment, which is required to expand the production possibly frontier.

In addition, growth is expected to come increasingly from emerging markets in the region. However, this growth is conditional on countries successfully carrying out the necessary structural reforms, which require both political will and technical expertise. Given its favourable location within ASEAN, Singapore can benefit economically by providing the technical expertise to help countries in the region carry out the necessary structural reforms to achieve growth.

Explaining Immigration Sentiment

The political economy in Singapore has shifted to a new equilibrium since the last few years, resulting in a moderation of immigration. Citizen sentiment towards immigration could be explained by their endowment share of capital and labour resource. Citizens with high capital resource relative to labour resources tend to be more supportive of immigration as it provides higher return on capital and vice versa. The medium voter in Singapore currently has a higher share of labour resource. If the composition of resources changes in future, public sentiment towards immigration may evolve too.

Low Input Substitutability Impedes Singapore's Productivity Drive

The substitutability of input resources has a great impact on economic restructuring. Low input substitutability could reduce the efficacy of government grants and programmes to raise productivity. Preliminary studies appear to show that the substitutability of local labour for foreign labour is low in Singapore. Similarly, the substitutability of capital for labour is low. These findings have implications for the government's push for companies to embrace technology. It could indicate that technology adoption is not pervasive among companies, and that companies cannot adapt their business models quickly even when generous government support is available. More importantly, it could suggest that local companies lack the ability to think of solutions to survive new competition and other business challenges.

SPECIAL SESSION: DISCUSSION

Singapore in an Age of Disruption

A participant commented that the world is in an age of disruption, in which services are becoming more tradable and trade barriers are rapidly being dismantled. This provides both economic opportunities and challenges for Singapore, as industries traditionally shielded from competition, such as the healthcare sector, education sector and financial sector, are losing that protection. Existing activities that are inefficient are therefore disrupted. However, while the world stands to benefit in the long run, this global phenomenon would render short- to mid-term headwinds as economies carry out necessary structural reforms that could upend the current order, so as to transit into new paradigms of growth. While it is difficult to identify with precision the next big driver of growth and demand, digital technology seems to be the right frontier of development for Singapore.

Productivity in Singapore

A participant noted that Singapore was still some way from the production-possibility frontier for certain sectors, such as the construction sector and retail sector. These sectors could boost productivity easily by importing new production techniques and technology from other countries. For example, the retail sector could raise its productivity significantly by adopting self-service technology more widely.

Even so, the participant pointed out that that Singapore continues to face binding input constraints on both labour and capital fronts. Hence, it was important to reinvent the content and image of some jobs to make them more attractive as a whole to Singaporeans. Part of the approach is to leverage technology to improve the quality of such jobs. If successful, this would help increase inputs substitutability, he said.

Another participant said that the old business profit model of low cost labour and real estate price appreciation still seemed to prevail in Singapore. He predicted that until the local corporate sector changes its business model, inroads on productivity would be limited. Adding on, he said that government policies should focus on drawing more Singaporeans into the start-up sector, which has been identified as a source of future growth. At present, the high-tech start-up clusters in Singapore such as Block 71 in Ayer Rajah consisted mostly of foreign start-ups.

In the same vein, another participant suggested that the entrepreneurial lethargy witnessed among Singaporeans could be attributed to a lack of choices in education and life. He shared that from his interactions, local students seemed to feel compartmentalised based on results, and exhibited little drive or ambition to think beyond what they were taught in school.

Government Support for Businesses

Participants at the roundtable were generally optimistic that the recently announced Future Economy committee would carefully examine all areas of growth and development for

Singapore. It was agreed too that the government was concerned about productivity growth, job creation and the socio-economic well-being of the population, and that they all hinged on the successful restructuring of the economy. Further, a participant noted that the government policy stance for the past few years, through broad-based measures, was to give every company support to transform its business. He said that for the next phase of restructuring, government support should become more targeted to allow for creative destruction in the market. This would free up more resources for productive businesses to grow.

If you have comments or feedback, please email ips.eneews@nus.edu.sg



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