

The Twenty-Fifth Singapore Economic Roundtable

By IPS Economics and Business research cluster

The 25th Singapore Economic Roundtable (SER) took place on 18 May 2016. A flagship event of the Institute of Policy Studies (IPS), the discussion assessed Singapore's current monetary and fiscal policy in view of changing economic conditions. It also featured a special session to discuss the Trans-Pacific Partnership and its implications for Singapore's economy. Over 40 participants comprising economists, academics, business leaders and policymakers attended the SER, which was chaired by Manu Bhaskaran, Adjunct Senior Research Fellow at IPS.

Proceedings from the 25th SER, which was conducted under the Chatham House Rule, will be documented in an IPS publication to be released later. Here is a brief summary of the issues that surfaced during the meeting.

Session One: Recent Economic Developments and Macro-Economic Outlook for Singapore and Implications for Policy

The domestic economic performance has been modest and uneven, weighed down by structural and cyclical headwinds. Signs of a three-track economy are emerging, particularly based on 2015's fourth quarter macroeconomic data. Expansion in modern services is outpacing other parts of the economy; growth in the domestic sector is slow but steady upwards; while the external-oriented sector is weighed down by a lacklustre global environment that is struggling with slow growth and low inflation.

The deterioration in the external environment will weigh on the economic outlook. Companies have already begun moderating their business expansion plans and have reduced hiring in the first half of 2015. More workers were released in the second half of 2015, and this trend persisted in the first quarter of this year. Consequently, wage growth for 2016 is expected to moderate to 2.5–3.0%, compared to 3.5% in 2015.

But weak growth momentum is not Singapore-specific; on a broader basis, most of Asia's emerging markets have seen slippages in growth, primarily due to the drag from a decelerating Chinese economy. Exports are also declining rapidly in the region and this has hit the export-oriented economies, with an exceptionally hard impact on highly-open economies such as Singapore, South Korea and Taiwan. The defragmentation of regional supply chains is becoming more evident; intermediate components from Singapore, South Korea and Taiwan are not flowing as robustly into China's factories. A conjecture is the onshoring of supply chains in China, as it develops its own industries to supply intermediate goods domestically.

Worldwide, the inflation impulse has also faltered. For Singapore, the Singapore Interbank Offered Rate (SIBOR) is expected to keep rising — this could become a major source of financial risk, particularly for highly indebted households. The real growth minus real interest rate differential is unfavourable, and coupled with the high level of debt in Singapore, creates a sustainability issue. Singapore has also seen its sensitivity to the Renminbi (RMB) increase, heightening the risk from an RMB shock.

Growth potential will be curbed by ageing demographics. While Singapore has exhibited structural strength, it will be increasingly difficult for the country to grow unless stronger productivity improvements can be realised. The vulnerability of the economy is high, and the lack of productivity growth (plus the cost issue) is the root of the problem.

The role of very large government-related companies in Singapore's economy (e.g., government-linked or Temasek portfolio companies) should be examined. The cost of capital for these companies seems to be lower than that of comparable peers. Does this allow them to invest in areas where they do not have comparative advantage and crowd out nascent enterprises, crimping innovation and entrepreneurship and potentially stifling new engines of growth?

Session One: Discussion

A participant stated that a negative real growth-real interest rate differential may not be deleterious especially if higher interest rates encourage deleveraging and bring down overall debt to a more sustainable level. In reply, it was pointed out that as long as real growth is higher than the real interest rate, the real growth-real interest rate differential would be positive. The emphasis was on stronger growth \square not negative interest rates \square which is important for Singapore to achieve meaningful structural progress. In a related note, it was argued that the current low growth could not be simply explained away by external headwinds because a wealthy country like Singapore should be able to generate a decent level of domestic demand.

On the health of Singapore's economy, a participant noted that a crisis was not imminent although the economy was indeed "wallowing" lower for longer due to domestic restructuring, oil price shocks and China's slowdown. But several participants also expressed concern about developments in China and how an adverse shock in China would impact Singapore's economy. To this concern, it was suggested that a financial crisis in China — one stemming from asset illiquidity and currency shock — was unlikely. But a real crisis could occur if there is a sharp increase in inflation, like in 1994. If inflation overshoots, the PBOC (China's central bank) would be forced to stop monetising its assets, which it needs to do to deal with rising debt defaults. This would likely result in a financial crisis.

Several comments on the strategic use of monetary policy were also made. One pointed out that monetary policy decisions had to be seen in the context of multiple event factors. The individual said that careful policy measures are needed to deal with the complexity involved, and they should be introduced in a series of managed steps to allow expectations to adjust smoothly. For instance, it was a desirable policy outcome that interest rates did not spike despite the announcement of a neutral policy for the S\$ nominal effective exchange rate

(NEER) in MAS's April Monetary Policy Statement. Another remark highlighted the importance of other policy instruments like macroprudential measures, and pointed out the role macroprudential cooling measures played in inducing a gradual decline in property prices. Notwithstanding, there were criticisms that such measures could have unintended and tough-to-control negative spillover effects into other sectors.

Yet another participant said that the biggest problem facing Singapore's economy was the lack of meaningful productivity growth for an extended period of time. This was exacerbated by a labour market disrupted by ageing demographics. This productivity rut could not be solved solely by monetary policy.

Special Session: Trans-Pacific Partnership — What to Expect and the Impact on Singapore's Economy

The intellectual property (IP) chapter of the Trans-Pacific Partnership (TPP) is a breakthrough development since the signing of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) by the World Trade Organisation (WTO) in 1994. The TPP's unprecedented size, span and complexity sets it apart from other free trade agreements (FTAs). It involves 12 countries spanning both sides of the Pacific Rim, and its members contribute 40% of the global GDP, one-third of world trade and contain a market of 800 million people.

The TPP and the process of its negotiations reflect the changes in the global economic landscape, particularly in the area of IP. Traditionally, developed countries like the US and Japan have always sought to protect the IP content of their exports in FTA negotiations. However, because of changing attitudes towards IP, the developing countries and developed countries in the TPP are able to reach consensus on many IP-related issues, enabling a number of provisions in the IP chapter. In addition, compromise in the form of carve-outs, exceptions and the use of negative lists are made to ensure that the different needs of member countries are accommodated.

The TPP and the success of future mega FTAs like the RCEP (Regional Comprehensive Economic Partnership) and FTAAP (Free Trade Area of the Asia Pacific), could pave the way for increased relevance and importance of multilateral cooperation.

For Singapore, the TPP not only opens up new markets such as Canada and Mexico, but it also substantially increases the market access to member countries that already have existing FTAs with Singapore. Companies in Singapore can expect to benefit from better market access, services and investments, e-commerce opportunities, IP rights, government procurement and labour conditions.

However, the level of awareness and understanding of the TPP by companies is currently lacking. In addition, if companies are not able to see how the TPP fits into their business strategy they will not appreciate its benefits and threats. More education and communication to the public on the TPP is necessary. In particular, the terms and details of the TPP should be presented in a simple and relatable form for businesses.

The TPP would also usher in more competition from overseas. This could either push “complacent” companies in Singapore to improve and innovate, or force them out of business. Hence, in its conversation with industries and companies, the government should be honest in pointing out the opportunities and threats from the TPP.

Special Session: Discussion

It was noted that trade liberalisation initiatives and FTAs usually focus on trade in goods, but there is a natural limit to the amount of manufacturing that can be accommodated in Singapore. The TPP advances beyond this front as it also liberalises the services sectors. Hence, while some competition is inevitable when the TPP is enforced, the benefits of it are huge.

Participants went on to discuss how Singapore SMEs stand to benefit from the TPP, given that the country is a regional hub for several activities like logistics and finance. However, opportunities do not equate to success. In scaling up, companies must also have the ambition to grow and be willing to take risks. This requires a mindset shift. How could the government encourage greater entrepreneurial risk-taking in society? In this regard, some participants felt that the education system played an important role in bringing about a shift in attitudes. It may also be timely to consider more social-safety net measures such as unemployment benefits to lower the cost of risk-taking.

What are the added benefits of multilateral trade agreements compared to bilateral trade agreements? Would it not be better for Singapore to negotiate bilateral trade deals to prevent other countries from enjoying similar preferential access, asked one participant. In response, it was pointed out that first, multilateral deals have both strategic and economic imperatives, and the TPP in this regard, helps ensure that Singapore remains relevant on the world stage. Second, multilateral trade agreements like the TPP — by aggregating and increasing the benefits on offer — help member countries obtain concessions that would not have been possible if negotiations were between just two countries.

On whether it is possible to proceed with a variant of the TPP — if the requirement of six parties accounting for 85% of GDP ratifying the agreement is not met — it was suggested that horse-trading, compromises and interlinked deals make it near impossible to delink any large economy from the TPP.

IPS' [Economics and Business](#) Research cluster organises the bi-annual SER.



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