Institute of Policy Studies

Report on the 20th Singapore Economic Roundtable
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The 20th Singapore Economic Roundtable (SER) outlined Singapore's short- to medium-term outlook in a special session on macro-economic policy. Specifically, the session focused on Singapore's prospects for further economic growth through sub-regional integration.

MACRO-ECONOMIC OUTLOOK AND IMPLICATIONS FOR POLICY

Growth-inflation trade-off has deteriorated: With continued strong demand for labour, juxtaposed against tightening labour supply because of increasingly restrictive policies on foreign labour, employment costs have risen. As businesses are currently passing cost increases to consumers, inflation has risen despite the lower growth.

The economy has entered a low growth-high volatility phase: The Singapore economy grew in Q2 2013 but slipped in Q3 2013, repeating a pattern that indicates the economy has entered a stage of lower growth coupled with higher volatility.

In the short term, the Singapore economy will be supported by growth and export demand from the G3 economies, either directly or indirectly through exports of intermediate inputs to China that are processed into products to meet G3 demand.

Key Risk: Deflationary Adjustment

If the recovery in the G3 economies does not pan out as expected and ASEAN economies slow down, Singapore's economic restructuring could turn into a more painful deflationary adjustment.

Key Risk: High Debt Levels Combined with a Likely Fall in Property Prices

There has been a rise in household debt with a significant portion of debt attributed to financing of housing assets. Debt levels are rising beyond the age when income peaks (50 years), raising the risk profile. Property prices are expected to drop by 5 per cent in the next 12 months and by about 10 per cent to 15 per cent in the next three to four years. The analysts believed that the risk would not be so much to financial institutions through rising non-performing loans. Rather, the risk would be that debt-strained households cut back on spending, thus depressing domestic demand and hurting economic growth.

Key Risk: Higher Productivity Growth Fails to Materialise

Singapore economy needs higher productivity growth but many obstacles stand in the way. While small and medium-sized enterprises (SMEs) need to invest in productivity by enhancing equipment and new processes, they find it hard to raise capital funding because bank loans are typically not forthcoming. Even those who have relatively high levels of cash holdings appear hesitant to invest.

Policy Issues Raised: Blunt Policy Tools could Hurt Outlook

Beyond the immediate cyclical pick-up, Singapore's outlook could be undermined by the longer-term effects of the more restrictive approach to importing skilled labour. An observer with direct contact with large foreign companies in Singapore noted that many have provided feedback that Singaporeans do not have the requisite skills for the type of roles needed in their company. And so, as companies find it increasingly difficult to cope with such restrictions, many are seriously considering moving their activities out of Singapore. This includes companies that have been in Singapore for a long time, and which have many Singaporeans hired at senior levels.

As with previous Roundtables, several observers were uncomfortable with the pace of currency appreciation. While they saw the need to use this tool to dampen inflation, they felt that the cumulative effects of persistent currency appreciation, combined with rising domestic costs, were highly damaging to export competitiveness.

The MAS Perspective

Panellists from the Monetary Authority of Singapore (MAS) noted that the discussion confirmed its own studies that found evidence for the low growth, high volatility assessment. This higher volatility is here to stay as it is driven as much by the economic restructuring that Singapore is currently undergoing as the faltering of its major trading partners, since Singapore remains primarily driven by G3 demand, especially European demand. Therefore, there is a need to brace the economy for the shift towards low growth levels coupled with high levels of volatility.

MAS assured the Roundtable that the risks raised by participants were well understood by the Authority. In the real estate sector for example, MAS could quickly unwind the macro-prudential measures to cool the sector should property prices start to fall in a destabilising manner. MAS also noted that the existing set of policy measures could accommodate the likely scenarios. MAS is able to change its exchange rate policy at any time should developments warrant that. MAS also believes that Singapore has little choice but to push for productivity-led growth: it therefore accepts that there will be some adjustment pains. The question is what policies could be used to mitigate this pain and accommodate the risks.

REGIONAL INTEGRATION IN SINGAPORE: A Malaysian perspective

Singapore Should Consider a Shift in its Emphasis to the Region after a Long Period of Successfully Focusing on the Global Economy

The presenter of the main paper made these key points:

- Singapore had developed well since its independence as it moved away from its previous focus on the regional hinterland to being a global city. This was the right approach given the dominance of the developed economies.
- However, the movement in the economic centre of gravity back towards Asia will result in north Asia becoming a major source of demand. The presenter posited that future competition would be between supply chains that compete to serve this north Asian engine rather than between individual countries.
- The presenter believed that the Malacca Straits region, from its northern tip around Penang and Aceh to its southern tip around Jakarta could be a major competitive cluster of supply chains that could efficiently service this north Asian centre.
- Singapore should therefore consider a re-focus on its immediate hinterland.

Current Conditions Favour Closer Cooperation between Singapore and Malaysia

The Singapore-Malaysia relationship has grown decisively in recent years now that contentious issues such as the disputed railway land have been resolved.

The quality of the Singapore-Malaysia linkages has also been supported by the positive co-operation between their sovereign wealth funds (SWFs), Temasek Holdings and Khazanah. The co-operation has built a sense of familiarity with each other that bodes well for the future.

Singapore and Malaysia also share a similar predicament; they both have to compete with internationally large competitors such as China and India. The Singapore-Iskandar Malaysia model could be ported over to the other corridors in Malaysia, if the former proves to be a successful one. Singapore's development with Iskandar Malaysia could fuel growth and further integration, first between Singapore and Peninsula Malaysia, then with East Malaysia and eventually with Indonesia. The integration between Singapore-Malaysia would present opportunities for firms in both countries to tap on and benefit.

Change of Mind-set Needed in Singapore

Further integration between Singapore and Malaysia would only occur when there is a mind-set change amongst businesses and the people. Singapore linking up with Greater Kuala Lumpur with economic development along the western coastal cities would definitely form a strong economic, social, and cultural relationship between the two countries. These developments would provide further support for enhanced forms of connectivity between the two countries, which will fuel further levels of economic growth.

Political Climate in Malaysia a Risk

The political climate in Malaysia is witnessing changes and the present government has to accommodate the changes and handle issues as they appear. In Singapore, the government is willing to hear the voice of the people by acknowledging their requests and queries, which highlights a stark difference. There is a need for similar changes to occur in Malaysia as well, and the recent racial and religious uproars are a cause for concern.

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

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