Institute of Policy Studies

The 21st Singapore Economic Roundtable

By *IPS Economics and Business Cluster*

Started in 2003, the Singapore Economic Roundtable (SER) has successfully brought together a select group of economists, academics, business leaders and policymakers biannually 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 frank and open exchange of ideas and concerns.

The 21st SER was convened on 23 May 2014 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 policymaking in Singapore. A local medical technology entrepreneur, a Spring Singapore officer and an academic were also invited to examine the state of innovation and the start-up landscape in Singapore. The presentations were followed by a series of fruitful discussions among the participants.

Proceedings from the 21st SER will be documented in an IPS publication released later this year. Here is a brief summary of key issues of interest surfaced during the 21st SER:

Economic Outlook and Implications for Policy — Rising Risk of Multi-Year Disinflation

1. Global economic growth picked up towards the end of last year with Asia providing most of the uplift, even as the G3 economies of USA, Europe and Japan continue to expand at a moderate pace. While the outlook for Asia ex-Japan is more cautious, ASEAN-4 economies of Indonesia, Malaysia, Philippines and Thailand are expected to benefit from a stronger G3 demand, attractiveness as a Foreign Direct Investment destination due to their large domestic markets and favourable demographics, and more competitive production cost as China's unit labour cost increases.

2. Into 2014, the external headwinds experienced in the last few years should gradually recede, anchored by improving prospects in the G3 economies. Thus far, the US economy has been supported by private consumption. Going forward, investments are likely to play an increasing role. In general, as the import intensity of capital goods in the

US exceeds that of consumption goods for Singapore, an improvement in US investments should translate to greater US import demand.

3. Nonetheless, companies could see continued margin pressures. Specifically, higher labour costs from the tightening of foreign labour inflows will weigh on companies' profits. The effects of labour constraints will be felt more acutely in companies with greater reliance on labour inputs. These are mainly in the consumer-facing sectors. Elsewhere, the trade-related services and segments within manufacturing have been confronted with falling margins due to falling prices.

4. The Singapore economy has experienced a rising trend in services activities in the past decade. Services accounted for just above 70% of total output in 2013. In comparison with the region, Singapore's revealed comparative advantage over the past decade resides in modern services. Moreover, the global wave of servicisation in the technology-manufacturing sector has affected manufacturing companies operating in Singapore, especially those in the IT industry.

5. Employment growth strengthened in the second half of 2013, driven by strong hiring of residents. The tight labour market continues to exert upward pressure on wages. Firm labour demand could exert further upward pressure on resident wage growth, especially given the recovery of the G3 economies, thus pushing unit labour costs higher. Productivity growth is expected to offer only a modest offset.

6. However, with the ASEAN Economic Community coming into implementation in 2015, we may observe a similar kind of globalisation dynamics change as when China acceded to the World Trade Organisation, where a cheap labour supply shock may put downward pressure on wages in some of the high-income economies, including Singapore. In addition, the glut of property supply in the pipeline will add to the deflationary impulse. In the medium term, Singapore may experience a multiple-year disinflationary environment.

7. With the rise of the "Asian Century", by 2050 the top 10 Asian economies could account for around 50% of the global Gross Domestic Product. Asia's financial system will have to deepen in order to support the economic activities in the region. The expected size of the overall financial system in the region suggests that there will be multiple financial capitals, and specialisation will be key. Singapore will no doubt face competition for its financial hub status, and as a policy recommendation, the appropriateness of interest rate targeting as a pivot for yield curve for Singapore to retain its role as a key financial capital should be more robustly discussed.

8. The timing and appropriateness of switching to a monetary policy more reliant on interest rate targeting must be conducted prudently to avoid unintended disruptions to the economy. At the moment, the use of a combination of exchange rate targeting and timely macro-prudential policies is doing a good job.

Special Session: Innovation Policy in Singapore — Policy Needs to Address Inherent Disadvantages

1. Singapore is a connected global city well-ensconced in Southeast Asia and with good access to the Chinese and Indian markets. It is one of the leading wealth management centres in the world. Hence, it is well-placed to become a key start-up hub for Asia and one of the leading places in the world for innovation and the commercialisation of technology.

2. However, there are several inherent disadvantages that Singapore faces:

    a. First, Singapore's high cost of living means that entrepreneurs have to struggle more than they would in other technology hubs.
    b. Second, due to its small size, Singapore cannot sustain a very large critical mass of technology companies and professionals like in the Bay Area of California. There is also no direct hinterland or domestic market. Although Singapore is very much tied in to global markets, it is arguably costly to scale something beyond Singapore.
    c. There is still a lack of investment funds — both institution and individual — in Singapore. This is partly due to the small local start-up landscape.

3. Instead of spending resources on attracting foreigners to Singapore, more efforts could be focused on grooming our own local-born entrepreneurs. The government should also focus on attracting and keeping young talents who come from the rest of Asia, and who are keen to tap the better opportunities that Singapore offers compared to where they are from.

4. In addition, the only way to effectively become an innovative economy is to make this a national affair. Singaporeans have to be supportive of an interest in science and innovation, learn to invest in start-ups, and become a nation with our own world-leading angel investors, innovators, scientists, engineers and entrepreneurs.

5. The vibrancy of Singapore's entrepreneurship landscape has grown over the years. However, several challenges remain. In particular, there is a real gap in Series A financing for promising start-ups. Crowd-funding may play a pivotal role in this area as an alternative source of funding. However, the current regulatory landscape in Singapore makes it quite difficult to set up a crowd-funding platform in Singapore. In addition, there are various factors to take into consideration when deciding the suitability of developing a crowd-funding sector in Singapore.

6. In the initial years of trying to create a vibrant start-up landscape, the government identified a lack of good ideas and deals as the inhibiting factor. Hence, it introduced various grants and funding to encourage potential talent to start companies and develop their ideas. By doing so, the government has successfully encouraged the formation of more companies. Nonetheless, it also received feedback that by supporting start-ups so aggressively, it inevitably crowded out private market participation. Moving forward, the

government may relook its strategy and adopt a more nuanced approach, whereby funding in some sectors would be reduced, while funding in essential sectors will continue to receive aggressive support.

7. There is a huge untapped pool of smart money, namely that of corporations. Corporations, not just multinational companies but also wealthy family enterprises, have the relevant knowledge, resources and market connectivity to add value to start-ups. They could be attracted to participate more actively in start-up financing through corporate tax incentives. This could be a key area of policy focus for the future.

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

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