

## The 23rd 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 a frank and open exchange of ideas and concerns.

Proceedings from the 23rd SER jointly organised by the Institute of Policy Studies (IPS) and *The Business Times* on 25 May 2015 will be documented in an IPS publication released later. Here is a summary of the key issues of interest surfaced during the 23rd SER.

### **SESSION 1: ECONOMIC OUTLOOK AND IMPLICATIONS FOR POLICY**

#### ***Monetary Authority of Singapore's (MAS) Assessment of the Economy***

##### **(1) Global economy set to strengthen but domestic headwinds limit the upside in Asia**

While a modest recovery in the Group of Three (G3) economies could boost global demand, the outlook for Asia may be clouded by several developments. First, tighter financial conditions and an impending interest rate increase could limit the uptick in aggregate demand in these economies. Second, elevated debt levels in some Asian economies could lead to financial stresses as higher global interest rates raise debt servicing burdens. Third, where there were currency mismatches, these financial stresses could be exacerbated by a further appreciation of the US dollar (USD) that would hurt companies with large USD denominated debt.

##### **(2) Supply constraints have reduced long-term growth in the domestic economy**

The Singapore economy faced new complexities and changing growth drivers that produced uneven short-term growth profiles and disparate sector outcomes. Looking ahead, domestic manufacturers would have to contend with not just domestic resource constraints but also with structural shifts in global manufacturing and trade.

### **(3) Inflation will ease further before rising again by end 2015**

Tight labour conditions were forecast to remain, with most of the recent job creation found in the domestic-orientated services sectors. While the pass-through of wage costs to consumer prices should remain modest, non-tradable sectors such as education, healthcare and prepared meals were likely to pass on cost increases to consumers, given the relatively firm demand they enjoyed and the high make-up of wages in total costs.

#### ***Discussion on Economic Outlook and Monetary Policy***

Three key issues for monetary policy were raised, with a general consensus in favour of MAS' assessment of the economy and policy settings:

#### **(1) Whether current policy settings were appropriate given current economic conditions**

Several participants were concerned about the current monetary policy stance of modest Singapore dollar appreciation given the weak global environment, low headline inflation and lagging productivity growth in Singapore. One participant asked if the economy was at a tipping point, given the possibility of intensifying real estate deflation and the headwinds from economic restructuring. In such a context, the risks to growth were high while inflation risks remained low.

#### **(2) Whether the current exchange rate-based regime remained appropriate for Singapore**

While no participant advocated an outright change to the monetary policy regime, there were concerns that structural changes were limiting the effectiveness of the regime.

First, the way in which domestic interest rates responded to exchange rate policy moves had changed. In the past, an appreciating exchange rate would be accompanied by rising interest rates. But now, because Singapore's financial markets were so open, and its economy more swamped by the effects of global capital flows as a result, liquidity changes induced interest rates to move in the opposite direction of the exchange rate movement, reducing the desired impact of an exchange rate shift. This was seen recently when MAS' off-cycle January decision to ease exchange rate policy was followed by a sharp rise in domestic interest rates.

Second, with household and corporate sectors now burdened with more debt, the effects of interest rates on the real economy were amplified.

Third, the regime's effectiveness in containing inflation seemed to have diminished. For decades, Singapore's inflation rate had been below the average inflation rate of its trading partners. However, from 2008 onwards, Singapore inflation was persistently higher than its trading partners' inflation, indicating a loss of competitiveness as costs in the country rose relative to its competitors'.

### **(3) Whether changes to the frequency of MAS monetary policy meetings were needed**

There were differences in opinion on the optimal frequency of MAS policy meetings. One side argued that the global economy produced more frequent shocks that required more frequent adjustments to policy.

However, more participants felt that frequent policy changes would be detrimental for the economy since more frequent changes would only tend to increase financial market volatility, not reduce it.

Moreover, as others pointed out, the global economy today was more complex, making it harder to read economic developments accurately. Instead it could be better for the MAS to lay out a broad framework and respond only when drastic changes occur.

However, participants mostly agreed that MAS should provide more frequent communications — in between its biannual meetings — of its views about the economy especially in today's volatile global environment. This would align market expectations more closely to the central bank's outlook and reduce the amount of uncertainty.

#### ***Discussion of the State of the Economy***

Several participants were not unsettled by the recent lower growth in Singapore. They felt that growth had in fact been moderating for some time, reflecting the reality that there were limits to how fast an advanced high-income economy like Singapore could grow. Similarly, it was not surprising that wage growth remained subdued despite a persistently tight labour market, since businesses were cognisant that economic growth was around 3% rather than the high single digit rates of the past.

Still, others noted that the outlook could be worse than what MAS had suggested, pointing for example to the sharp plunge in job creation in the first quarter. These participants noted several strong headwinds in the domestic economy. Amongst them were: the regional hinterland struggling due to the sharp fall in commodity prices; and the hollowing out of certain manufacturing sectors in Singapore as a result of high costs and a loss of competitiveness.

#### ***Need for More Data to be Collected to Understand Turning Points in the Economy***

Several participants appealed for more public data to be released on a timely basis, as it would help reduce market uncertainty and allow for more in-depth research and better understanding of the economy. It was not clear, for example, why the composite lead indicator was not released monthly as it was in other developed economies. In addition, unlike most of its developed economy peers, Singapore did not have a services Purchasing Managers Index (PMI) while its manufacturing PMI — created by a private sector group — may not have adequate coverage. One of the most important processes within the domestic economy was the substantial restructuring within the corporate sector. Yet, there was very little data available to study this process and its effect. The Corporate Sector report, for example, was released with a lag of two years.

## **SPECIAL SESSION: SINGAPORE'S ECONOMIC RESTRUCTURING FOR PRODUCTIVITY-LED GROWTH**

### ***Human Capital Development Critical for Progress***

The current economic restructuring was built on Singapore's past economic achievements and strong fundamentals to rebalance and position the country for future progress. Unlike other cities, a city-state faces limits to growth and productivity due to its geographical constraints. To overcome this challenge, it was suggested that Singapore focus on developing its human capital by providing more convergence between the pillars of education and the pillars of training, which was crucial in today's environment of ever-evolving skillset needs.

On the issue of foreign workers, it was posited that Singapore's poor productivity was due more to the rapid expansion of workforce employment in recent years than to the actual presence of foreign manpower. Some participants acknowledged the need for foreign manpower controls to regulate the labour market, but felt that manpower measures should be more targeted and less punitive. One participant pointed out that many foreign workers who have worked, picked up skills and become more productive in Singapore were sent back to their home countries upon the expiration of their work permits. Another participant noted that while much of the focus had been on foreign workers in Singapore, the government should also pay attention to the outflow of local talents and think of ways to retain and attract them back.

Education was also identified as an important factor for improving the quality of the labour force and boosting productivity in Singapore. However, participants acknowledged the positive changes made to the education system, and agreed it would take some time for the effects to materialise.

### ***Relationship between Entrepreneurship and Productivity***

The room for productivity improvement is also dependent on the level of creativity and entrepreneurship, said one participant. He added that embedding a culture of creativity and entrepreneurship required not just a mindset shift in employees but also changes at higher management levels, reflecting the importance of management quality and openness to a company's development. Another participant suggested a review of bankruptcy laws in Singapore as academic studies had uncovered that the toughness of the bankruptcy code was inversely related to entrepreneurship.

### ***Aligning SME Strategy with ASEAN Connectivity***

It was highlighted at the roundtable that productivity for many companies was about improving efficiency by reducing cost through available levers. This was not sustainable on a long-term basis, and increasingly more companies were rethinking their manufacturing strategies by tapping new markets and relocating their production lines from Singapore to where the consumers were. Hence, Singapore should capitalise on the connectivity of the ASEAN community, aligning it with its SME strategy to increase business opportunities and expand the country's economy space. In addition, some participants felt that it was important

for Singapore to maintain strong linkages between the manufacturing sector and the services sector as a strong manufacturing base enhances the range of services offered.

### ***More In-depth Studies on the Dynamics of the Singapore Economy***

Participants also observed that growth in Singapore remained extensive rather than intensive, relying on more resources and capital to drive growth than other developed economies. This had a negative effect on productivity, on which Singapore's future growth was underpinned. There were also views that the productivity conundrum was linked to the extent of the total public sector — including government-linked entities — involvement in the overall economy. One participant noted that several international studies had found that entrepreneurialism was inversely related to the size of the public sector in most economies. Calls were made to assess the effect of the public sector on the development of the economy.

Some participants expressed the need for more micro-level examination on productivity in Singapore. For example, an ageing workforce and a higher participation rate of older Singapore residents could place a drag on productivity. The behavioural effects of government incentives like workfare, special employment credit and wage credit schemes had not been properly studied too. However, conducting micro-level studies required more data, which was currently not available.

Productivity is also closely linked to business competitiveness, and there were concerns at the roundtable over the high cost of living in Singapore. One participant observed that despite being a very open economy, general cost excluding property in Singapore was higher than other global cities like Hong Kong, Manhattan and London. This could indicate some form of oligopolistic structure present in the economy that impeded market competition — something that was worth studying.

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