Singapore needs to push regional integration

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Economic rationale for this still exists, say participants at Singapore Economic Roundtable.

With broad agreement that small and open Singapore cannot escape from a global slowdown, discussion at the latest Singapore Economic Roundtable turned to questions of whether diversification has made Singapore's economy more volatile, and what its role in regional integration is.

More than 40 market economists, academics and policymakers met on Tuesday for the 16th round of the forum, held twice a year by the Institute of Policy Studies under Chatham House Rules (which state that views cannot be attributed without consent, so as to encourage freer sharing).

Risks in the near term may have shifted from inflation to growth, but speaker Saktiandi Bin Supaat, head of FX Research at Maybank, remained concerned about domestic cost pressures in the medium term.

Higher labour productivity growth and eventual wage increases - the 'cascading effect' of policy changes such as tightened foreign worker inflows - may exacerbate expectations of a rise in the real exchange rate, pushing domestic costs up, he said.

Deyi Tan, vice-president of research at Morgan Stanley, raised the issue of higher economic volatility. She believed that by developing highly cyclical industries such as finance and tourism, policymakers may have added more beta to Singapore's macro portfolio over the years.

One participant, who found this 'startling', questioned if this was true. He thought that Singapore has grown the 'right' financial service sectors - such as private banking, fund management and foreign exchange - while the integrated resorts (IRs) would benefit from global liquidity and regional wealth.

But Ms Tan saw the IRs as essentially 'a play on global liquidity and market confidence', adding volatility to Singapore's macro portfolio. Focusing on demand driven by secular trends of urbanisation and ageing may help reduce that cyclicality, she said.

There has been progress in developing urban infrastructure solutions, but Ms Tan noted that those requiring 'delivery of solutions to the doorstep' - such as with the Tianjin Eco-City - maygrow a Singapore company's revenue yet create relatively fewer jobs locally.

'While higher-value-added jobs are still held in Singapore, it does mean that growth needs to be firing from more cylinders to create enough jobs for the local masses,' Ms Tan said. Greater coordination between - and calibration of - manpower, wage, monetary and fiscal policies will be critical going forward, Mr Saktiandi added.

Turning to foreign economic policy, Pradumna Bickram Rana of the S Rajaratnam School of International Studies at the Nanyang Technological University was optimistic that Asean's trade, financial markets and monetary policies have become more integrated. But non-tariff barriers have remained high, and rising inequality within Asean slows integration too, said Aekapol Chongvilaivan of the Institute of South-east Asian Studies.

Prof Rana thought that with the Asean+3 (China, Japan and South Korea) Macroeconomic and Research Office (AMRO) opening here earlier this year, Singapore will have a key role to play in strengthening the US$120 billion regional financing arrangement involving Asean+3 centralbanks and finance ministries.

But a couple of participants questioned AMRO's purpose, given overlaps with the International Monetary Fund - on functions such as macroeconomic surveillance and providing assistance - without its global heft. Prof Rana stressed that the two are complementary rather thancompetitive.

Most who spoke agreed that despite a lack of leadership and vision, the economic rationale for regional integration exists. Singapore, as a potential major beneficiary, will need to push ahead without stepping on others' toes, one said.

Mr Saktiandi remains concerned about domestic cost pressures in the medium term.