

The 35th Singapore Economic Roundtable

By Eddie Choo

The Institute of Policy Studies (IPS) held its 35th Singapore Economic Roundtable (SER) on 15 October 2021. Conducted by its Governance and Economy research cluster, the roundtable had 90 participants comprising economists, academics, business leaders and policymakers to assess Singapore's fiscal strategies.

For this SER, Minister of Finance Mr Lawrence Wong gave an address, followed by a question-and-answer session moderated by Mr Vikram Khanna, Associate Editor at *The Straits Times*. The question-and-answer session was followed by a panel discussion moderated by Professor Danny Quah, Dean of the Lee Kuan Yew School of Public Policy (LKYSPP) and Li Ka Shing Professor in Economics, which featured panellists Mr Chris Woo, Tax Leader at PwC; Professor Ramkishan Rajan, Yong Pung How Professor at the LKYSPP; and Dr Taimur Baig, Managing Director & Chief Economist, Group Research, at DBS Bank Ltd.

The complete proceedings from the 35th SER will be documented in an IPS publication and released at a later date. A brief summary of the issues discussed is presented here.

Minister's Speech: Fiscal Strategy

Minister of Finance Mr Lawrence Wong outlined the challenges and principles of how Singapore went about designing a fiscal system to meet incoming challenges, without imposing burdens on present and future generations, and to improve the standard of living in Singapore.

Mr Wong summed up Singapore's key challenges in three areas: inequality, demographics, and climate change.

He noted how Singapore's Gini coefficient had been steadily declining for 15 years, reflecting the government's measures to stop the income gap from widening. As a result of redistributive efforts, the coefficient has been reduced. Ministry of Finance (MOF) studies on intergenerational mobility showed that about 14 per cent of children born to the bottom one-fifth percentile of income earners go on to become the top one-fifth percentile of income earners in their 30s — a good outcome compared with other places, showing upward mobility. Mr Wong asserted that all Singaporeans and their children's lives will become progressively better and that no one will stagnate or feel excluded from the benefits of growth. In order to achieve this, the government is working on expanding the Progressive Wage Model,

enhancing the Workfare Income Supplement scheme, providing additional targeted support for children from low-income families in pre-schools, and helping working adults stay relevant and improve their job prospects through SkillsFuture. These efforts will require increases in recurrent funding.

The second challenge highlighted was demographics, noting that 25 per cent of the population will be aged 65 or older by 2030. While greater longevity is worth celebrating, it also means an increase in healthcare spending. Mr Wong observed that healthcare spending is currently at 2.2 per cent of GDP, three times from the last decade, and is expected this to reach 3 per cent of GDP by 2030. Furthermore, labour force growth is also expected to shrink, necessitating further productivity growth. There are also opportunities for the silver economy; raising the re-employment and retirement ages and incentivising companies to employ senior workers will provide ways for senior workers to continue to contribute to the economy.

Mr Wong next spoke about the climate change agenda and the need to decarbonise Singapore's economy. He noted how Singapore is at a "double disadvantage", given its lack of space and natural resources to scale up renewable energy. In addition, as a low-lying island, Singapore is at risk of coastal inundation and flooding. Mr Wong mentioned commitments to spend up to S\$100 billion for protecting coastlines against sea level rises; proceed with research and development funding for new technologies; and grow as a sustainable finance hub. Mr Wong said that the current carbon price is too low, and the revised carbon tax rate for 2024 will be announced in the next Budget,

Mr Wong also spelt out the need for government programmes and investments to be funded in efficient ways and to preserve inter-generational equity. He noted how the government now goes beyond grants, towards providing loans and equity to support companies. Risk-sharing with banks is also another way for the government to invest. Borrowing for long-term projects has become permissible through the Significant Infrastructure Government Loan Act (SINGA).

Revenue resilience was another important theme that Mr Wong highlighted. He noted the importance of the Net Investment Returns Contribution to Singapore and cautioned the dangers of spending more from the endowment, given the possibility of large shocks in the future. He mentioned the importance of raising the Goods and Services Tax (GST), given how alternative measures such as raising the income tax might be impacted by rapid ageing and would increase the burden for the working population. In addition, the prospective increase in the GST should be seen together with the accompanying Assurance Package that will help to smoothen the tax burden. Mr Wong also outlined the commitment of the tax system towards progressiveness, where the bottom 20 per cent in income bracket will always receive a larger share of benefits. He said that Singapore is studying how it can expand its wealth tax system to see how they might be effective without undermining overall competitiveness.

Mr Wong also described how international tax cooperation is important, with the Inclusive Forum on the Base Erosion and Profit Shifting (BEPS 2.0 project) that establishes a global minimum taxation regime. International discussions are also taking place around carbon taxes. Given the mobility of capital and talent, Singapore needs to be involved in international forums such as the G20 and OECD, to shape the rules on international taxation.

Question-and-Answer Session

During the Q&A session, Mr Wong observed that Singapore's economy has changed from the time he was an economist in the Ministry of Trade and Industry in 1997. He noted how current investments in automobiles and agriculture sectors, through electric vehicles and agriculture-technologies, were not "accidental outcomes" but the result of identifying opportunities and remaining open. He stressed that the lifelong learning is not just lip service, but a serious effort involving massive investments.

To a question on the implications of population ageing, Mr Wong said it is necessary to stay committed to productivity efforts, and to maintain the openness of the economy.

When asked if Singapore might ever reconsider the balanced budget principle, he said there is often "no turning back" as advanced countries tend to have rising deficits. That said, the balanced rule does not preclude counter-cyclical measures through the reserves, subject to the President's approval.

Mr Wong responded to a question on the considerations of various wealth taxes that could be implemented. He noted that any wealth tax that is implemented has to be effective by not being easily avoided, which is a challenge given the mobility of capital. The second consideration is that wealth taxes should not undermine overall competitiveness.

Responding to questions on entrepreneurialism, Mr Wong observed that Singaporeans has become more entrepreneurial over the years, with the start-up scene being more vibrant from 10 years ago. He also acknowledged the need to reduce the stigma of bankruptcy, which continues to inhibit risk-taking.

The moderator raised various questions on gig workers and social safety nets, and on possible expansions in Singapore's social safety net. Mr Wong noted that this is an important issue, and that Prime Minister Lee Hsien Loong had mentioned the formation of an advisory group on this matter at the National Day Rally this year. While the government has provided grants, these were only part of the measures that complemented active labour market facilitation through training and job-matching platforms.

Mr Wong also responded to questions about the implications of Base Erosion/Profit Shifting (BEPS) measures. He said that Singapore's competitiveness comprises a mix of tax and non-tax factors. With the new measures, Singapore might look into how to strengthen non-tax measures further. Furthermore, any gains from the global minimum corporate tax would be ploughed back towards enhancing the capabilities of workers in a BEPS 2.0 world.

Mr Khanna asked about the timing of the GST hike, a policy measure that was expected in the 2022–2025 period. Mr Wong reiterated the government's stance that the GST hike would have to come "sooner", and that the Government will look closely at the overall economic conditions, including the outlook on inflation. He reiterated that the GST increase should not be seen in isolation, and that the Assurance Package will delay the effects of the hike for lower and middle-income households by five to ten years.

Mr Khanna posed several questions relating to supply chain disruptions and inflation implications. Mr Wong replied that companies ought to become more resilient, to think about keeping inventory (away from just-in-time principles), and to diversify supplies. He explained that the Ministry of Trade and Industry is engaging companies in this exercise, and to point

out the need to buy insurance on a commercial basis. The government has also been looking at diversification of essential goods and to build stockpiles.

Moving to the topic of climate change and the industrial transition, Mr Khanna pointed out that Singapore is heavily invested in the fossil fuel industry, and posed to Mr Wong a question on how the transition might be managed. Mr Wong noted that the investments in refining and petrochemicals were made many years ago, and had created good jobs for Singaporeans. He emphasised that the companies in these sectors aimed to be “best in class” in energy efficiency, serving Singapore and the global market. He was confident that as Singapore raises the carbon price, companies will internalise the price, and this will result in changes in the industry mix. Mr Wong added that it remains an extremely challenging issue to change power generation towards greener options, owing to Singapore’s circumstances. While importing electricity is an option, from an energy security perspective it is not desirable to import 100 per cent of electricity. Options such as green hydrogen and carbon capture are beyond the immediate term too. He concluded that an eventual mix of various products such as green energy imports, carbon markets and credits, and new technological solutions would allow for the decarbonisation of Singapore’s economy in the long term.

Panel Session

The panel discussion was moderated by Professor Danny Quah and comprised Mr Chris Woo, Dr Taimur Baig, and Professor Ramkishan Rajan. The wide-ranging discussion included taxation and competitiveness, climate transition, ageing and productivity issues.

Taxation and Competitiveness

The panellists discussed various kinds of wealth taxes and their implications for Singapore’s fiscal position and competitiveness. They discussed the need to find revenue sources given various policy demands for supporting social mobility and for protection from climate risks. The panellists noted that current property stamp duties are already a kind of wealth tax, as mentioned in the minister’s speech. There was disagreement about whether wealth taxes might impact Singapore’s competitiveness as a wealth management hub, with the examples of Hong Kong and Dubai being light-tax jurisdictions. To that, there was a perspective that a global corporate regime would cover these jurisdictions as well, and that Singapore might gain in revenue collection with the increases in taxation. In addition, Hong Kong was not seen as a “competitor” but as “complementary” in providing investors with different value propositions. Although there would be competition between different jurisdictions, the panellists pointed out that Singapore’s non-tax strengths are significant.

The panellists agreed that the increase in the GST is an important way to raise revenue, although they observed that the GST by itself is insufficient to improve the Singapore’s overall primary fiscal position.

Carbon Tax and Climate Change Transition

The panel discussed issues to do with carbon taxes and the climate change transition. A panellist mentioned the various steps required to decarbonise the economy — such as in power generation and in transport — and noted that the carbon tax on its own would be

insufficient for a transition to the green economy. In addition, there was also a need to monitor global trends in carbon taxes, such as the European Union's Border Carbon Tax Adjustment Mechanism, which allows the European Union to increase the carbon tax of goods from jurisdictions with lower carbon tax environments.

The panellists mentioned China as an example of a country that had staked out an ambitious position in climate change and was struggling with energy issues and preparedness. They pointed out that Singapore is unlikely to be in a similar position, given its coordinated plans. Its sovereign wealth funds also worked with the energy industry to change their business models, rather than complete divestment from these companies.

The panellists also touted the importance of carbon credits as a way to create a market of various carbon offsetting mechanisms. On the international front, they noted that China was already implementing an emissions trading scheme that was also being iterated. Tracking emissions is also an opportunity for accountants in terms of reporting, and panellists welcomed the Carbon Impact Exchange (CIX) from SGX. Initiatives such as the CIX could lead up to an ecosystem comprising carbon credits and nature-based solutions, funding communities and preserving their livelihoods in the region.

Ageing and Productivity

The panellists also considered other socio-economic issues, such as the 4 per cent decline in the resident population. While there might be a growth in productivity as economic growth returns, there is still uncertainty about how much the temporary decline in population might affect overall growth.

In the longer term, while ageing is certainly an issue for Singapore, the panellists did not think that it would lead to a decline in the standard of living. Additionally, they brought out the examples of South Korea and Japan, where dynamic young people continue to produce compelling content in arts and culture, with significant economic and geopolitical impacts. Nonetheless, a decrease in the working age population would mean a drop in income tax collections.

Although these challenges exist, there are also opportunities in terms of the health industries and businesses that might appear to provide services to the population.

Scorecards

Towards the end of the segment, Professor Quah asked the panellists to come up with markers or milestones that might indicate progress in tackling the issues that Mr Wong addressed earlier in his speech — in tackling demographics, inequality and climate change.

The panellists indicated the need for data on wealth to track developments in inequality. Another way might simply to track the public's mood based on how much anxiety people might be feeling regarding various developments. The panellists also said that education is an important leveller, and its "value added" indicator ought to be more prevalent in society. The gig economy was another area of concern.

On demography, the panellists thought about how far to push into the Scandinavian model to raise Singapore's total fertility rate. They mentioned the Minimum Income Standard (MIS) study, which tracked the minimum income required to live with integrity, comfort and safety. The sandwiched middle class was described as another area to keep track of, and so studies such as the MIS in documenting their experience would be helpful. The panellists highlighted the importance of the middle class, as the group that holds society together.

Finally, a panellist pointed that "global unrest" is the highest it has ever been for the past 70 years, even higher than the tumultuous 1960s and 1970s. This is a peculiarity to current times that does not seem to be well apprehended.

Eddie Choo is a Research Associate at IPS.

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