IPS Institute of
Policy Studies

The 26th Singapore Economic Roundtable

By Petrina Chew
IPS Research Assistant

The 26th Singapore Economic Roundtable (SER) was held on 9 November 2016. Conducted biannually by the Institute of Policy Studies' (IPS) Economics and Business research cluster, it brought together over 40 participants comprising economists, academics, business leaders and policymakers to assess the changing global economic conditions and the outlook for Singapore's economy moving forward. A special session on big data was also featured in recognition of the growing digital economy and the challenges as well as opportunities it poses for Singapore.

The roundtable was conducted under the Chatham House rule, and was chaired by Manu Bhaskaran, Adjunct Senior Research Fellow at IPS. The complete proceedings from the 26th SER will be documented in an IPS publication and released at a later date. A brief summary of the issues discussed is presented here.

SESSION ONE: RECENT ECONOMIC DEVELOPMENTS

Deteriorating Global Economic Outlook and the Implications for Singapore

Global growth forecasts for 2017 remain lacklustre especially across advanced economies in the G3 and NEA-3. The sterling growth rates that China used to boast are tapering off as well. Although the global impacts of the fallout of Brexit and the outcome of the US presidential elections cannot be fully determined, they have already created much uncertainty for international markets and economic policies. The surging anti-globalisation wave in these major economies see a move towards greater adoption of protectionist policies, in a bid to counter the underlying anger at income inequality that the working class holds about not benefiting from the spoils of globalisation.

External trade is no longer contributing as much to Asia's growth as it used to at the start of the millennium. Trade intensity in the region is expected to shrink further with China's shift towards upstream production and the reduced trade in intermediate goods. Many economies such as the US, Eurozone and ASEAN-4, are also looking inwards at domestic consumption to be the predominant driver of growth over the next few years.

This continued weakness in global trade flows is expected to persist, boding ill for Singapore since our economy is small, open and largely dependent on trade. Domestic economic activity has slowed and our overall trade volume is expected to be negatively affected especially due to Singapore's reliance on underperforming trade segments, such as petroleum and semiconductors, which make up 40% of our exports. Against this outlook,

Singapore's GDP growth is not expected to pick up significantly and would be at the lower end of the 1 to 2% forecast range rounding out 2016 and beyond.

The Monetary Authority of Singapore (MAS) forecasts a modest 1 to 2% rise in core inflation in 2017. Oil- and energy-related prices are expected to increase since crude oil prices have been at record lows in 2016. However, this increase in imported inflation is likely to be offset by the absence of generalised demand-induced price pressures, hence the gradual rise.

Consumer price index (CPI) all-items inflation is also expected to rise from its historical low due to upswings in inflationary pressures from individual components in the CPI basket, such as private road transport consumption. Additionally, the S$NEER (nominal effective exchange rate) band has been kept at zero per cent in view of the subdued economic growth and MAS is adopting a neutral stance to monetary policy for an extended period to ensure stability in the medium term and to reduce the output gap.

On the job front, it is an uneasy time for the labour market — job vacancies and turnover rates have fallen, while the resident and overall unemployment rates have risen. Overall resident wages in 2016 are likely to remain similar to levels in 2015. Declining labour productivity still poses a difficult challenge for Singapore, especially since the age of faster innovation, virtual integration are upon us. The fall in re-entry rate into employment and the increase in the long-term unemployment rate further indicate labour market mismatches. There are challenges involved in reskilling mismatched workers and older workers to remain relevant and productive to the evolving needs of our economy. To address these concerns, some government policies such as SkillsFuture and professional conversion programmes have been initiated.

SESSION ONE: DISCUSSION

Foreign policy changes can cause unexpected spillover effects into Singapore and constrain our policy options. One participant noted that growing protectionism across major economies could prolong the decline in global trade flows, as evidenced by the 105 years of global trade decline when globalisation receded as a result of protectionism in the late 19th century.

Reduced external demand minutes the effectiveness of exchange rate policy to stimulate our economy and suggests that export-led strategies are less viable for Singapore in the long run. The example of Hong Kong imposing greater restrictions on the property sector was also given to highlight that their foreign policy changes could result in external liquidity washing into Singapore. Thus, there is a need to diversify our trade and economy through greater coordination and synchronisation of our economic policies with our regional neighbours.

With regard to the Trans-Pacific Partnership (TPP), a number of participants asserted that since it is unlikely to come into effect, Singapore should redirect efforts towards solidifying linkages within the region instead to leverage opportunities for growth. We should look towards China's Regional Cooperation Economic Partnership (RCEP), as well as expand the ASEAN Economic Community (AEC) to include the liberalisation of the services. For example, we can tap on the financial services industry in the large Indonesia market.

Although global monetary policy remains accommodative, participants shared the view that the reliance on monetary policy has increasing risk and inflexibility. Greater use of fiscal policy is recommended. It was highlighted that Singapore still has room for greater fiscal levers and thus the alignment of our monetary policy and fiscal policy would greatly support

growth. Overall fiscal multipliers will be higher if Singapore engages in greater coordination of fiscal expansion with our regional neighbours, as well as stimulate growth. It was also suggested that policymakers refrain from making point forecasts and instead focus on "the path of least regret" because of the uncertainty in the global environment.

It was emphasised that the long-term vibrancy of our economy to attract investments and create jobs depends on the successful restructuring of our sectors and our small and medium enterprises (SMEs). However, participants noted that the current economic restructuring in Singapore has placed strains on businesses amid the strong external headwinds.

MAS representatives said that the large-scale domestic restructuring process remains complex and they continue their observation of its progress on the economy. They further noted that it is unclear if Singapore's trade intensity would improve given the structural factors in the global environment for two reasons. First, investment levels are unlikely to return to their highs in previous globalisation waves. Both investments from G3 economies — which have not fully recovered to pre-global financial crisis levels — and China's slowdown indicate weak investment flows into Singapore. Even if some trade-related activities indicate a cyclical recovery, it is likely to be predicated on domestic consumption spending, rather than from investments. Hence, trade intensity is unlikely to improve. Second, data shows that trade in intermediate goods have shrunk in Asia since China has moved up the supply chain. China's reliance on her own production of intermediate products would further drag down the trade intensity for Singapore.

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Participants further discussed the importance of addressing the immediate challenges of time, manpower and overall costs that SMEs face during this restructuring period. One participant suggested reviewing the usage of price-based measures to incentivise businesses to become more innovative and productive, because these measures have inadvertently resulted in rising business costs and tighter lending conditions for SMEs.

Another recommendation was for the government to re-examine risk-sharing schemes, medium-term financing and insolvency safety nets — to better assist SMEs in overcoming the associated risks of investing in innovation. Singapore could also adopt the Japanese keiretsu or the South Korean chaebol business structures to help SMEs access alternative financing to engage in greater innovation.

SPECIAL SESSION: THE DATA ECONOMY AND THE IMPLICATIONS FOR THE FUTURE

Global data is growing exponentially, cross-border flows of data are also increasing, and the Internet of Things will rise threefold by 2020. Technology plays an important role in enabling us to navigate the digital space and make use of the complexity and diversity of big data to devise new strategies and solutions for our economies.

Beyond enabling data to connect the trio of the government, private entities and individuals, data markets and digital intermediation have great potential. New economic opportunities arise as we use data to drive targeted marketing strategies, increasingly integrate it into industries such as smart manufacturing, and to provide greater control over one's personal information.

Although there is an important need to constantly keep up with the data economy and technological disruptions, it would be unwise to focus on marketing Singapore as a leading data hub. Due to the intangible nature of the data and the digital space, it is impossible to constrain it within our physical geographical boundaries. Barriers to entry are low and the market is increasingly saturated with data solutions companies, making the industry unprofitable and inefficient for Singapore in the long run.

As technological disruptions continue, it becomes more important to build an ecosystem with the right kind of skillsets for the data economy. This ensures correct identification of quality data collected, enabling us to engage in higher value-added data services instead. Higher quality data analysis would produce better actionable insights, assisting businesses and government policies in addressing structural challenges in Singapore.

SPECIAL SESSION: DISCUSSION

The exponential growth of global data would transform the global economy fairly quickly. Even though Singapore recognised the need to digitise our economy early on, participants expressed concerns that we actually lag behind other digitally advanced economies such as Estonia. There are still barriers to accessing all services, transactions and data online, and this reduces Singapore's economic competitiveness in the face of greater digital disruptions.

It was further discussed that the government should play a stronger role in navigating the new changes to the digital and data space. The movement of data pose security concerns

and the breach of privacy and trust. It was proposed for legal frameworks regarding data to come under review. The Personal Data Protection Act is one area that should be reviewed since personal data is expected to command higher commercial value in the future. It was also pointed out that data oversteps the current definitions of what constitutes a good or a service, hence there is a need for an improved classification of data.

The government's initiative to engage in data-driven experiments to improve sectors such as education and transportation is acknowledged, but participants noted that the government was often reluctant to share data or findings with the public. This prevents the public and private companies from understanding the importance of making sense of data, slowing down the development of insights that could inform both policy and business strategies.

It was stressed that the existence of such institutional roadblocks may obstruct or constrain the industry from reaching its full potential. Participants continued to encourage the government to publicly release data and findings in spite of the success rate of data projects. This would foster an ecosystem that embraces failure and spurs on entrepreneurship.

Government agencies can also help to harness the full potential of the data economy because they have accumulated large volumes of data. It was suggested that they could either recruit more employees with specialised data skillsets to make sense of the accumulated data, or outsource the analytics work to private businesses. Local SMEs who have extensive expertise in data analytics can be engaged to analyse and visualise the data to inform policymaking. The government was further encouraged to work with private companies to improve the accumulation and accessibility of non-economic data. This

creates more opportunities for data analytics to occur and insights to be derived for the government.

Some participants commented that if we could improve the accessibility and availability of data to the public coupled with greater digitisation of services, businesses would adapt to technological disruptions and Industry 4.0 more quickly. Greater digital connectivity can drive innovation for the economy, as businesses would then be better poised to tap the growth opportunities of the "new economy" of modern services such as e-commerce and fintech.

A shortage in the global supply of data scientists is expected in the near future. This means that there will be a dearth of specialised data skillsets in Singapore. This shortage could prevent our economy from keeping up with data and digital changes, and could cause a slowdown in developing actionable insights for policy. Participants proposed that education and training programmes be expanded to include specialisation in data skills. It was also highlighted that businesses and government agencies should not rely solely on data scientists or data solutions companies to provide the answers, but should build up these skillsets among their current pool of employees as well. Retraining existing employees would make up for the data skills shortage and increase the productivity of businesses and government agencies that currently have a lack of such skillsets.

Cultural blocks may also exist as businesses are preoccupied with short-term challenges and do not see the immediate importance of transforming their organisations to adapt to digital and technological changes. A participant brought up the issue of a top-level disconnect or general resistance to making technical changes across existing operations. The hiring managers may lack knowledge of specialised skillsets, and recruit the wrong employees to meet their companies' needs. This skills mismatch impedes the restructuring of businesses and prevents Singapore from leveraging on further growth opportunities in the "new economy" of modern services. One suggestion was to educate all employees to have a basic understanding of data. This speeds up the process of identifying the businesses' data needs as well as finding employees with the right set of skills to generate future economic value.

Petrina Chew is a Research Assistant in the Economics and Business cluster at IPS

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