Institute of Policy Studies

Report on the 27th Singapore Economic Roundtable

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THE 27th SINGAPORE ECONOMIC ROUNDTABLE (SER) was held on 17 May 2017. The SER is conducted biannually by the Institute of Policy Studies' (IPS') Economics and Business research cluster. The 27th SER brought together over 40 participants comprising economists, academics, business leaders and policymakers to assess economic conditions and Singapore's role as a hub for the region.

The roundtable was conducted under the Chatham House Rule and chaired by Manu Bhaskaran, Adjunct Senior Research Fellow at IPS. The complete proceedings from the 27th 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

The session on recent economic developments began with presentations from Geraldine Koh, Senior Economist in the Economic Policy Group at the Monetary Authority of Singapore (MAS); Benjamin Shatil, Economist (Emerging Asia) at JPMorgan; and Irvin Seah, Executive Director (Economics and Currency Research) at DBS Bank.

Macroeconomic Overview: Positive Economic Outlook for Singapore

The outlook for Singapore's economy was positive, based on positive global growth predictions and increased external demand in Asia. External demand was the key contributor to Singapore's recent growth, with China's growing appetite for Asian exports cited as a major factor in the increase in external demand. A presenter however expressed caution over China's slowing growth, pointing out that their government has recently taken to measures such as loosening consumer credit in efforts to spur growth. MAS expected the manufacture and sale of information communication technology (ICT)-related goods worldwide to increase. Overall, 1–2% GDP growth for 2017 was projected, and it was noted that MAS intended to maintain a neutral monetary policy. The S$NEER (Nominal Effective Exchange Rate) band is expected to be kept at zero, in accordance with MAS' current neutral monetary policy stance.

Based on MAS Core Inflation and CPI-All Items Inflation statistics, inflation in 2016 was cited to be low. Low oil prices are expected to keep the CPI-All Items Inflation index low. Job growth had been focused on services, while overall employment in construction and manufacturing shrank.

Structurally Weak Economy

It was observed that the recent positive economic performance was possibly due to a cyclical lift concentrated in the technology sector, and that there existed worrying macroeconomic indicators showing possible structural weakness in the economy.

Key Risk: Weak Domestic Demand

Weak domestic demand was highlighted as a cause for concern. It was speculated that the above-mentioned "cyclical lift" had not translated into increased domestic activity.

Key Risk: Structural Unemployment

The labour market was also an area of concern. Unemployment had edged up slightly. While labour outlook in the intellectual property sector had improved, employment outlook in manufacturing was consistently negative, suggesting aforementioned structural, rather than cyclical problems. Retrenchment in labour-intensive industries could be attributed to disruptive technology, like how retail had been one of the first to be disrupted by e-commerce. Cyclical lifts in the economy were noted to also not immediately lead to increased employment. A presenter offered that producers preferred their “order books” to be filled before they increased their staff headcount, which could explain weak employment figures even in sectors with positive growth predictions.

Key Risk: Restrictive Foreign Labour Hiring

Singapore’s policy on hiring foreign labour was also said to have been likely to hurt domestic employment, as local employers find it difficult to fill staffing gaps. A presenter cited examples of restaurants closing due to their inability to hire foreign workers, causing local management-level staff to lose their jobs as well.

Low Fiscal Stimulus Expectations

Government spending spiked as expected with Keynesian counter-cyclical spending in 2016. However, forecast of future government spending is moderately positive, disappointing those in the market who were expecting more fiscal spending in the near term.

SESSION ONE: DISCUSSION

Economic Overview

Throughout the conference, it was noted that well-performing commodity markets were a key factor behind Singapore’s recent growth. However, several participants expressed concerns over the volatility of that growth, offering that future falls in commodity prices would cause Singapore’s economic growth to suffer. There was general consensus among the participants that the current government and monetary policy was satisfactory.

Key Takeaway: Urgent Need to Monitor Economic Restructuring

There was much doubt over Singapore’s restructuring efforts, particularly that of the Industry Transformation Maps. Most of the concern was directed towards the inadequacy of current economic metrics such as unemployment and productivity to monitor the pace and composition of restructuring.

Repeated comments were also made about Singapore lagging behind its neighbours' disruptive technology adoption and productivity growth. Some participants subsequently expressed fears of Singapore losing its attractiveness to MNCs as a result of aforementioned structural reasons, particularly when combined with an ageing population and restrictive foreign labour quotas. It was then suggested that Singapore’s future growth would have to be dependent on local firms, apart from the current economic dependency on MNCs.

Resultantly, there were calls for more avenues of investment towards start-ups and businesses, with participants suggesting ideas such as a stock exchange for start-ups. A participant noted that people have been investing in property instead of businesses over the stretch of low interest rates following the 2007–2008 financial crisis, and called it a lost opportunity for investments into local businesses.

Finally, there were strong requests for government agencies to issue more detailed datasets for public consumption. Participants cited the lack of "granular" national data from government agencies, which made forecasting and assessment of the Singapore economy problematic.

Inadequate Labour Restructuring Policies

Participants agreed that a large portion of those recently retrenched were likely to be from the finance sector. While the current labour force composition was seen as sub-optimal for a new digital-centric economy, it was pointed out that the incentives to enter the finance industry were still high, which continues to make it more attractive for people to work there.

The effectiveness of current labour retraining schemes was also questioned, with participants highlighting the ineffectiveness of retraining mid-career personnel in rapidly expanding specialised fields. Many participants subsequently expressed their reluctance to hire so-called retrained workers in skill-intensive roles, such as in jobs to do with cyber security.

Overall, several participants felt that the current basket of policies would be inadequate to prevent mass retrenchments in the wake of restructuring, and expressed worry towards the repercussions of large-scale unemployment.

Assessing Productivity

It was stated that regional countries were growing faster due to their pool of young people, compared to Singapore's ageing population. A participant mooted the idea of Singapore "borrowing" productivity growth in order to improve Singapore's attractiveness to MNCs. He concurrently suggested that Singapore companies be the next engine of growth, and that a model for Singaporean companies operating overseas and repatriating the resultant earnings would boost nationwide productivity.

There was also a call to reassess how productivity was measured. A participant brought up the idea of a composite index for specific sectors to measure productivity, instead of an overall measure, terming it "micro-industry productivity measurement". Furthermore, an industry-specific composite index could be fairly weighted across industries so as to get a nationwide measure of productivity that can be compared across the years.

SPECIAL SESSION: SINGAPORE'S ROLE AS A HUB FOR THE REGION

The topic for the Special Session was chosen in light of several significant events in recent times. From the withdrawal of the United States from the Trans-Pacific Partnership to the deluge of Chinese investment into countries along the One Belt One Road initiative, it was timely to reassess Singapore's role in the region in the near future, as well as how to maintain its competitive edge.

To begin, Dr Yu Hong, a Senior Research Fellow at the East Asian Institute at the National University of Singapore and Associate Professor Alan Chong from the Centre of Multilateralism Studies, S. Rajaratnam School of International Studies were invited to speak on Singapore as a hub, and the impact of the One Belt One Road initiative.

Overview

China's role in the world is changing. The One Belt One Road (OBOR) initiative is representative of its growing confidence and aspiration to play a rule-shaping role in the region and beyond. A presenter said that Singapore would be highly relevant to those plans and in a good position to benefit from the initiative, noting that China valued Singapore's regional clout. More specifically, Singapore's well-established markets for finance, logistics and investment services were likely to play significant roles in the OBOR initiative.

In terms of actual activity, it was noted that Singapore has been China's largest foreign investor since 2013. Singapore correspondingly attracts around 50 per cent of China's outward direct investment among the countries on the OBOR route. Around 6,500 Chinese companies have also set up regional headquarters, investment vehicles or research and innovation centres in Singapore.

Maintaining Singapore's Advantage

Singapore's success as a hub could be attributed to several non-economic reasons. One of Singapore's key advantages is that Singapore possesses a "service ecosystem" that attracts commodity traders, banks, ship management and operating companies to set up base here.

Singapore's need to maintain good relations with the rest of ASEAN was also emphasised, given that Singapore's port services the hinterlands of our ASEAN neighbours. Instability in bilateral relations would potentially cause disruptions to Singapore's transhipment industry.

Singapore's reputation as a port was also a critical ingredient in differentiating us from regional ports, leading to regional producers choosing to ship their products through Singapore. Regional efforts to "chip away" at Singapore's transhipment trade were also judged to have been largely unsuccessful, and are not likely to be successful in the near future, due to Singapore's edge in the soft aspects of running a seaport.

Project Jewel was hailed as a timely re-inventing of Singapore's aerospace hub facilities and that there was a need to re-imagine what an airport should be like. It was also stated that aerospace geography was changing, with airports no longer being mere transit hubs or refuelling stops, but actual destinations in their own right.

It was pointed out that Singapore needed to pioneer work in exchanging and sharing information, and in database management in relation to Singapore's hub infrastructure. A presenter cited growing numbers of attacks on critical infrastructure, stating that hacking of aircraft systems might be a potential threat in the future.

Opportunities from OBOR

It was stated that Singapore has unique expertise in "soft infrastructure", such as infrastructure project planning, infrastructure management and capacity management for the completed infrastructure — expertise that China requires.

Singapore could also take the lead in financing infrastructure projects among the OBOR countries. OBOR is expected to exacerbate large infrastructure and funding deficits in many of the countries along the OBOR route. Estimates from the Asian Development Bank (ADB) that were presented in 2010 showed that Asia alone would possibly require US$8 trillion in capital investment by 2020. Singapore's experience in engaging the ADB over the years was also said to put it in a good position to help its companies clinch infrastructure development projects from the OBOR initiative.

Furthermore, it was predicted that Singapore would gain further prominence as a transit hub or final destination, as travel in the region due to leisure, study or business is fully expected to rise. Correspondingly, there should be a push for Singaporeans to be able to speak multiple languages, as well as to mediate between conflicting cultures.

In a similar vein, it was suggested that Singapore could tap its reputed strengths to specifically develop expertise in serving the growing needs of its neighbours as a direct result of OBOR — for example, developing expertise in aircraft safety to service the expected intensifying of regional air traffic.

Challenges with OBOR

China's economic growth has slowed significantly in recent years. As China is currently Singapore's largest export market, Singapore could be the hardest hit in the near term. From a larger perspective, China's slowing growth could hinder the progress of the OBOR initiative.

Another obstacle to Singapore is the rise of international competitors to our transhipment hub status, as a direct result of OBOR. Investment into port and transport facilities in the OBOR countries such as in the Melaka Gateway project might see Singapore's significance as a transhipment hub diluted over time.

Increased connectivity between Singapore and Malaysia from the high-speed rail project could potentially re-open old wounds — especially those of a political nature. Following that, a presenter pointed out several yet-to-be negotiated problems of bureaucracy and of an economic nature, such as the possibility of negotiating a standardised export promotion policy along the rail, or one or the other party adopting measures to protect domestic airlines and airports from competition.

SPECIAL SESSION: DISCUSSION

Chinese overseas projects were pointed out to be largely carried out by Chinese workers and resources, limiting the oft-extolled benefits in local investment and employment. Foreign indebtedness to China was also raised as a point of concern. It was observed that many Asian countries were in dire need of investment, thus catalysing the intensifying acceptance of Chinese investment.

Issues of social integration and labour market concerns were also brought up. Some participants were concerned that the high-speed rail could reduce employment in Singapore, as cheaper Malaysia labour become more accessible to Singapore employers. Some participants expressed uncertainty over future foreign worker policies and social integration. One participant asked if Singaporean employers were prepared to recognise Malaysian qualifications, and a generally lower standard of business English.

On social integration, a participant was optimistic, pointing out research showing that foreigners were relatively welcome in Singapore. Perhaps increased foreigner numbers in Singapore — directly or indirectly from the OBOR project — would not create significant problems of social integration. The main challenge to the government would come from communicating implemented social policies to the population, rather than formulating the policies themselves. The participant concluded by observing that the government's rhetoric on keeping foreigners out of Singapore has been far ahead of the actual policy, and felt that this was unsustainable.

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