

Report on the 28th Singapore Economic Roundtable

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THE 28th SINGAPORE ECONOMIC ROUNDTABLE (SER) was held on 15 November 2017. The SER is conducted biannually by the Institute of Policy Studies' (IPS). This session saw over 40 participants comprising economists, academics, business leaders, and policymakers convening to assess economic conditions in Singapore, and to discuss the role and progress of the ASEAN Economic Community (AEC).

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 28th SER will be documented in an IPS publication and released at a later date. A brief summary of the issues discussed is presented here.

Macroeconomic Overview: Positive Predictions for Singapore's Growth Remain on Track

Global growth and investment have persisted on an upward trajectory since Q1 2017. G3 economies show positive signs in indicators such as employment, although wage growth continues to be slow.

Asia itself is experiencing stronger positive growth than elsewhere. Recent GDP growth in the ASEAN 4 has also been matched by a less sharp increase in credit, which bodes well for the region.

Singapore's economic outlook has improved since the last review in the 27th SER. GDP as of Q3 2017 is growing at a faster pace as compared to the early months of 2017, and is expected to exceed 3% this year. There has been growth in sectors such as services, information communications and retail, while construction, marine engineering and offshore engineering remain weak.

The labour market has improved, although still showing signs of significant slack. Overall, the Monetary Authority of Singapore (MAS) [Labour Market Pressure Indicator](#) has risen, after 11 consecutive quarters of worsening. Resident wage growth was however noted to be still under the 10-year rolling average.

Inflation remains low, with the MAS' CPI All Items and Core Inflation registering at 1.5% and 0.4% respectively, including the 30% hike in water tariffs. In light of the aforementioned economic performance indicators, MAS will maintain a neutral monetary policy stance.

Manufacturing Performance Linked to Tech Sector

The global manufacturing PMI is at a 78-month high. The Eurozone in particular is showing a very strong increase in the Purchasing Manager's Index. Participants agreed that the technology sector was responsible for a large proportion of this growth.

Highly Positive Outlook for Asia-Pacific Economies

The Asia-Pacific Region is expected to account for over half of global GDP growth over the next decade, with China and India as main contributors. China should maintain a growth rate over 6% in the near-term, while India is expected to experience 7% to 8% growth. China may however experience slower growth in the medium term, while the Indian government's handling of issues such as their demonetising initiative may place a drag on economic growth. For the other Asian economies, exports have been strong, such as with Indonesia and Malaysia. Japan has also outlined plans for increased fiscal spending, while participants agreed that risks of a North Korean conflict appear to be tapering to a limited degree.

Key Risk: Volatility from Economic Reliance on China

It was noted that if China should experience disappointing growth, the Asia-Pacific region would be the hardest hit, with a presenter forecasting a 2.4% decrease in GDP in the region.

Key Risk: Need for Singapore to Prepare for Regional Developments

Participants suggested that Singapore should focus on sectors with value to increasing regional connectivity, such as finance, legal services, accounting, engineering and tourism. Sectors of less importance in such a regional strategy would include manufacturing, construction, transport and wholesale retail.

SESSION ONE: DISCUSSION

Singapore's Growth Has a Narrow Base

A participant pointed out that the "lift" in Asia and Singapore has been concentrated in technology sectors, and suggested that other sectors would need to grow in order to prolong the economic upswing to guard against cyclical downturns

Moderate Risk of a Slowing Chinese Economy

The likelihood of a slowdown in the Chinese economy was a point of interest for several participants. While one participant judged the likelihood of a "hard landing" for the Chinese economy in the next three years would be around 25%, the Chinese government was noted to be adept in managing their economy.

Global Electronics Manufacturing Outlook Remains Strong

A participant pointed out that the global backlog of orders is still very high, promising good economic performance in the near term. It was noted that this could be due to having started from a low base, tempering that view.

The composition of Singapore's upturn in electronics output appears to be in things such as sensors in vehicles, suggesting that the final demand composition has changed. Performance in this sector is expected to moderate in 2018, while forecasting the composition of final demand in

the medium-term may be more uncertain than ever, given the increasing pace of change in technological infrastructure.

Special Session: ASEAN Economic Community

The Special Session at the 28th SER was convened to track the progress of the AEC, lay out potential opportunities and challenges to its completion, and review how Singapore should best position itself in the regional bloc.

High Potential, but More Needs to be done

ASEAN is currently the fourth largest economy in the world after China, the United States, and India in terms of Purchasing Power Parity (PPP). ASEAN itself has committed to building an ASEAN Economic Community through the AEC 2015. As of end-2015, ASEAN has implemented over 90% of the measures (475 of 506) under the Blueprint.

However, it was pointed out that headline commitments often do not match reality, with many of the agreed-upon initiatives not being implemented uniformly across ASEAN countries. ASEAN countries are currently rated poorly in terms of Government Effectiveness, Regulatory Quality and Control of Corruption. Participants noted that an interest in economic integration is not uniformly shared by all. Ambiguities present in AEC policy documents also often lead to several competing interpretations, further undermining the effectiveness of the AEC.

Problem: Increase in Non-Tariff Barriers and Other Tariffs

There are several exceptions on trade allowed under existing agreements, such as for security and food safety. From import licensing procedures to packaging and quarantine requirements, there are several non-tariff barriers that still present an obstacle to free trade in the region.

There has also been a rise in anti-dumping or countervailing duties, as seen from an increase in cases filed and notices sent to the World Trade Organization (WTO). Safeguard duties that are applied indiscriminately to all countries and levies have also increased in number.

Problem: Development Divides within ASEAN

While ASEAN integration will help to provide economies of scale for relevant economies within ASEAN, a participant noted that there are large gulfs in development levels among the members of ASEAN. This might limit the range of production that their countries can engage in, limiting their options to lower-value industries. Many of the ASEAN member countries also do not use English as an official language, making interpreting and implementing the AEC's initiatives difficult.

ASEAN + X Will be the Dominant Model

Despite the issues mentioned prior, participants observed that several countries outside of ASEAN have expressed interest in negotiating with ASEAN as a bloc. Participants agreed that ASEAN will not follow the European Union (EU) model with dominant members of the bloc shaping policy, as to do so would weaken the value of ASEAN to many of the member countries.

Opportunity: Increasing Cost of Business in China

There exists however, opportunities for the AEC. Many businesses appear to be moving certain operations out of China, due to rising costs and increasing diligence in tax collection, presenting an opportunity for member countries of the AEC, should they be sufficiently industrialised.

Opportunity: Intra-ASEAN Trade is Intensifying

A participant noted that Japanese companies that are fragmenting their production have driven recent surges in intra-ASEAN trade. ASEAN already attracts around as much FDI as China, which will help drive further industrialisation in the region to support this production fragmentation.

Opportunity: Helping Companies Navigate Benefits Available Under AEC

Participants overall agreed that the AEC is on the path to overcome its current problems with implementation. However, there is evidence to believe that most companies lack both the resources and know-how to utilise these agreements to their benefit. This would negate the benefits of the AEC, and thus, the private sector should receive more guidance to properly reap the benefits of the AEC.

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