Institute of Policy Studies

The 37th Singapore Economic Roundtable

By R Avinash

The Institute of Policy Studies (IPS) held the 37th Singapore Economic Roundtable (SER) on 5 December 2022. The event had 40 participants including economists, academics, business leaders and policymakers from the public and private sectors.

The 37th SER was divided into two sessions. The first covered Singapore's macro-economic outlook and its implications for monetary and fiscal policies. The second was a special session on the Base Erosion and Profit Shifting (BEPS) project.

The first session started with Senior Minister of State (SMS) for Trade & Industry Mr Chee Hong Tat, who highlighted the need for sustainable and equitable growth as Singapore sought to tackle growing inequality. Topics such as China's economic reopening and the impending recession in the Eurozone were discussed by Mr Xie Kaiwei, Lead Economist of the Economic Surveillance & Forecasting Department at the Monetary Authority of Singapore (MAS); Mr Khoon Goh, Head of Asia Research at the Australian and New Zealand Bank (ANZ); and Ms Charu Chanana, Market Strategist at Saxo Markets Singapore. The session was moderated by Mr Manu Bhaskaran, Adjunct Senior Research Fellow at IPS.

The second session featured Ms Doreen Tan, Chief Tax Policy Officer of the Tax Policy Directorate at the Ministry of Finance (MOF); Mr Chris Woo, Tax Leader at PwC Singapore; and Mr Surin Segar, Senior Executive Vice President and Group Head of Tax at Maybank. This special session was moderated by Mr Christopher Gee, Senior Research Fellow and Head of the Governance and Economy Department at IPS.

The complete proceedings from the 37th SER will be documented in an IPS publication and released later. A summary of the issues discussed is presented here.

Session One: Macro-Economic Outlook for Singapore and Implications for Policy

Senior Minister of State Mr Chee Hong Tat: Sustainable and Equitable Growth

Mr Chee began by focusing on sustainable growth. The Singapore government views economic growth as a means to improve people's lives and not as an end in itself. Growth is meaningless unless it is shared by the workers, he noted. Hence, the government's approach is not about pursuing economic growth at all costs. There are also other important objectives, such as environmental protection and safeguarding social cohesion.

The government wants to Singapore's economy to continue to grow over the longer term — by finding innovative solutions to overcome land, labour and carbon constraints. This will also allow the city-state to rise above the near-term challenges that it faces with a slowing global economy due to geopolitical conflicts and trade restrictions, higher interest rates, and rising inflation around the world.

Sustainable growth will also allow Singapore to continue creating good jobs and opportunities for its citizens, generate adequate resources to improve the lives of all Singaporeans, and provide hope and optimism for a better tomorrow for future generations. There are some important elements as well as trade-offs to this sustainable model.

First element: Economic openness

The first element is economic openness. Singapore's economy must continue to remain international by staying open and connected to the world. This is not new. It is part of the Singapore story, and how Singaporeans make a living as a small city and economy with no natural resources. If Singapore closes its doors to the world, it will end up shooting itself in the foot as the world will just move on and use any of the competing hubs. Singapore will then not have the resources to support future generations of Singaporeans.

Economic openness is also part of Singapore's social DNA as an immigrant society, where people from around the world are welcomed to sink roots here and become part of the Singapore family over time even though they are not native-born. However, what has changed around the world in recent years are two driving forces, mainly, anti-globalisation and rising concerns over foreign competition. If these are not properly managed, they could hamper Singapore's position as an open and cosmopolitan hub.

Importantly, the government will continue assuring Singaporeans that it understands concerns about competition from foreigners working in Singapore. It will continue investing in initiatives like SkillsFuture and lifelong learning, so that Singaporean workers will possess skills that allow them to robustly compete with their foreign counterparts. It is on balance, still better for Singaporeans if Singapore adopts an open approach. This is so as there will be a larger economic pie and more for everyone to share. The alternative is to have a zero-sum game, or worse, a shrinking economic pie, where Singapore loses competitiveness, and where businesses decide to shift their investments elsewhere.

Second element: Strengthening innovation

The second element is strengthening innovation. This is critical if Singapore wants to continue overcoming its constraints, and find new and better ways to raise productivity and enhance its competitiveness.

Singapore has invested steadily in public research and development (R&D) for the past 15 to 20 years, and continues to focus on this important area going forward through a combination of public and private sector funding. Investments in R&D are bearing fruit. The government is also encouraging companies, especially MNCS and large local enterprises, to collaborate with government agencies, research institutes and institutions of higher learning to find more ways to commercialise their innovative technologies and R&D findings. In addition to this, they are encouraged to play the role of "queen bee" companies by helping small and medium-sized enterprises (SMEs) that are their contractors and suppliers, level up and build stronger capabilities.

Singapore's innovation ecosystem has become more vibrant. With more venture capital funds based here, more students at local universities and polytechnics are keen to become entrepreneurs and to establish their own startups. More local unicorns are being observed as well. The government is encouraged by what Singapore has achieved in the last few decades. In this vein, Singapore has to keep working at it to rise to the next level of innovation.

Third element: Inclusive growth

The third and final element is inclusive growth. Left on its own without government regulation or redistribution, a market-driven economy will likely end up with unintended consequences such as widening income and wealth inequality, and declining social mobility over time. This will breed discontent and erode social cohesion.

Meritocracy, an overarching framework that has come under assault in recent times, will have to be adapted and modified so that Singapore becomes a compassionate society. This is so that a person has multiple opportunities to be successful in life rather than having their fate determined by academic metrics alone.

Singapore also has policies like the Progressive Wage Model and Workfare Income Supplement (WIS) to boost the earnings of low-wage workers and narrow the gap between them and those who are earning median or higher wages. The government is also investing heavily in quality and affordable early childhood education to ensure that children from lower-income families will also have a strong foundation early in life compared to their peers.

A key question for Singaporeans is whether people will continue to support such a social compact that is based on collective responsibility where everyone pays some taxes, but the low and middle-income will receive more benefits than the taxes they pay, while the high income will pay more taxes than the benefits they receive. This is part of the consensus the government hopes to build by the Forward Singapore conversations.

Xie Kaiwei: MAS's Overview of the Singapore Economy

Inflation

Mr Xie Kaiwei of MAS provided an overview of the latest economic developments as well as the Singapore economy. He noted that global inflation had accelerated in recent months, reaching its strongest pace since the late 2000s. Headline Consumer Price Index (CPI) inflation rose from 5.4 per cent year-on-year in the second quarter (Q2) to 6 per cent in the third quarter (Q3) compared with the high of 6.5 per cent in Q2 2008.

Supply frictions and a brisk recovery in demand, particularly for goods, have led to a rapid erosion of spare capacity and put significant upward pressures on costs and prices in many economies. In response to the high inflation, central banks have stepped up policy tightening. The combination of falling real incomes and tighter financial conditions has started to impair sentiment and dampen economic activity. Notably, the global composite Purchasing Management Index (PMI) dipped into contractionary territory in Q3, reflecting broad base deterioration across both the manufacturing and services sectors.

MAS's baseline assessment is that the US could still avoid a sharp full-year recession and the export dependent ASEAN region could show some resilience if the disequilibrium phase does not keep into a disorderly adjustment. However, there are significant risks to a more accentuated or extended period of imbalance. While markets are expecting global commodity prices to remain stable towards the end of 2022, there remains a possibility that prices may rise again with further supply shocks. This in turn will lead to more monetary policy tightening by central banks.

The Singapore economy

The Singapore economy expanded by 1.1 per cent quarter-on-quarter as seasonally adjusted in Q3 2022, reversing the 0.2 per cent contraction in the previous quarter. Growth was largely supported by industries which continued to benefit from the reopening of borders. However, the manufacturing and financial services sectors underperformed expectations against the backdrop of softening external demand.

Amid external headwinds, growth in Singapore's trade-related sectors is likely to remain subdued in the coming quarters. Many of Singapore's major trading partners are projected to record weaker growth in 2023, compared with 2022. Based on the 2018 Organisation for Economic Co-operation and Development (OECD) trade-in-value-added data, final demand in these economies that are expected to see slower growth in 2023, which accounts for more than one-third of Singapore's GDP.

The cresting of the global electronics cycle will post a threat to the trade-related industries in the coming quarters. Meanwhile, the recovery in Singapore's travel-related and consumer-facing sectors should continue in the near term, but that growth momentum will ease as pent up demand from the economic reopening dissipates. All in, Singapore's GDP growth is likely to stay muted in the coming quarters. The economy is expected to expand by about 3.5 per cent for 2022 as a whole and moderate to a below-trend pace at 0.5 to 2.5 per cent in 2023.

The labour market

Total employment expanded robustly in the first half of 2022, largely driven by the catch-up of non-resident employment. Preliminary estimates suggest that total employment continued to grow strongly in Q3, although the pace of the labour market's improvement could ease. All broad sectors have seen strong employment growth in 2022 so far, especially the construction sector, which accounted for around a third of the net jobs created in Q2.

Gains in jobs have also been notable in the travel-related and domestic-oriented sectors in Q2. Total employment had recovered to its pre-COVID level by Q2 2022, with only headcount in the travel-related sector still significantly below. Total employment is estimated to have surpassed the pre-pandemic level by 1.6 per cent as of September 2022.

Overall, the labour market has remained tight thus far in 2022. Even as robust inflows of non-resident workers have partially alleviated labour shortages in some sectors. Resident wage growth remains strong at 6.8 per cent year-on-year in Q2, even as it eased slightly from 7.8 per cent in Q1, pushing wages to 2.7 per cent above the pre-COVID trend level.

Macroeconomic policy

MAS core inflation has been stronger than expected and is projected to remain elevated over the next few quarters. At the same time, upside risks to inflation remain. The Singapore economy is forecast to expand at a below-trend pace in 2023 alongside the deteriorating global outlook.

Downside risks to global growth have also increased and the prospect of a full-year recession in Singapore's key trading partners cannot be ruled out. On balance, MAS assessed that monetary policy needed to be tightened further to help dampen price pressures over the next few quarters when inflation is likely to be at a peak.

The upward re-centring of the policy band will frontload the impact of additional tightening on inflation in the immediate quarters ahead. The cumulative restraining effects of MAS's move since October 2021, will help ensure medium-term price stability as the basis for sustainable growth in the economy.

Khoon Goh: The Global Economy

Mr Khoon Goh from ANZ observed that it was very easy to see how prospects for the global economy were taking a turn for the worse. Based on available statistics and historical precedent, there is a very high probability of a US recession in 2023. However, even if a recession were to occur, there will still be questions about how deep and what kind of a recession it will be. This is where the jury is still out, and there is still at least some hope in terms of the outlook.

While financial conditions have tightened markedly throughout 2022, it is not at a level that is consistent with past deep recessions in the US. Hence, there is still hope that a deeper downturn in the US can be skirted. However, the US Federal Reserve is not done with a tightening cycle. If financial conditions are not tight enough, then there is every possibility the US Federal Reserve will continue to tighten more aggressively than what is currently priced in and effectively drive the US economy into recession to bring inflation down. The risk to the US growth outlook is certainly still to the downside.

Over in Europe, the situation remains somewhat bleak as the Eurozone enters a winter of discontent. Economic activity in Europe is almost surely already in recessionary territory. In the UK, the Bank of England has admitted as much. The UK is in a recession and will be in it for some time. It is easy to see what has driven such economic circumstances. The impact of the Russian invasion of Ukraine on energy supplies has really resulted in soaring energy prices, which is having a material impact on households and businesses. Therefore, in terms of investor and investor expectations of growth in the Eurozone, they are almost as bleak as seen during past crisis periods.

Singapore's manufacturing and services sectors

The Singapore economy has done remarkably well in 2022, considering the hostile external environment. Singapore is a small, open economy and very sensitive to what is happening to external demand. Despite external growth being weak, the economy has been robust. This is in part due to Singapore opening up and seeing a rebound in travel and domestic orientated activity. On top of that, the housing market in Singapore has been very strong, which has been driven in part by huge amounts of inflows from overseas.

One important structural change in the Singapore economy that has occurred in recent years, is that the share of manufacturing in Singapore, which tends to be the most sensitive to external demand, has shrunk. Information, Communications and Technological (ICT) financial and professional services, what MAS terms as modern services, is now a much larger part of the overall Singapore economy. In 1980, this sector only accounted for 10 per cent of GDP. Today, it is a quarter of overall GDP. It is much bigger and more important in terms of size. Manufacturing is still important, but its share of GDP has tended to hover between 18 to 22 per cent.

Compared with manufacturing, ICT financial and professional services sector very rarely go into contractionary mode, even amidst a global downturn. There is greater resiliency in this sector and less volatility, given that it is a much larger share of overall growth. In 2023, while there will be a slowdown in this sector, it will not be a material drag on growth compared to manufacturing. The other services sector should also continue to hold up quite well, hence, allowing Singapore to avoid a deeper downturn.

Fiscal policies

While inflation will remain elevated for some time — particularly with the impact of the Goods and Services Tax (GST) increase over the course of 2023 and 2024, and high rents continuing to exert upward pressure on headline inflation — there probably will be further monetary policy tightening by MAS to come.

There is a lot of near-term fiscal headroom for the government to be able to deploy measures to help lower-income households defray some of the cost of living challenges. The budget for 2023 should have some flexibility as a return to strong surpluses is expected. Those could be used again to help low-income households manage higher costs of living. Beyond that, there are longer-term fiscal challenges that the Singapore government faces. Government spending in real terms has been rising. This is also impacted by Singapore's ageing population.

Hence, there is a need to increase GST and find other ways to raise taxes in the future in order to fund ever-increasing expenditure. The good news is that the Singapore government is in a very good fiscal space right now with more options, and certainly in a much stronger fiscal position compared with many other governments.

Charu Chanana: China's Reopening and its Effects on FDI in Singapore

Ms Charu Chanana from Saxo Markets spoke about challenges that would test Singapore's economic resilience. These mainly involved investment flows and how Singapore has really benefited, especially in 2022, from the slowdown in China.

China's Foreign Direct Investments (FDI) inflows have fallen to a record low in the first half of 2022, whereas Singapore has recorded S$8.2 billion of inflows with 142 projects in the first six months of 2022. That is nearly double that of the next ASEAN country. This is good. However, China is reopening and doing so in a very rapid way.

What does that mean for inflows? Will they get diverted back to China or will Singapore still be able to enjoy that leadership position that it had earlier in 2022? All of the investments that are coming in now are extremely focused on climate change and digitisation. These key factors are a part of every project that draws FDI inflows into Singapore now. As Singapore does not have natural resources, there are a lot of efforts required to maintain that leadership position. There is also a scarcity of digital talent. This is something that can be addressed through a kind of policy response that maintains the focus on drawing in these FDI inflows going into 2023.

Deglobalisation

Other concerns include a more polarised world epitomised by deglobalisation. This is impacting Singapore in several ways. Singapore has close trade relations with China and the US. The kind of disagreements these two major economies pose strategic repercussions on technologies such as computer chips. Singapore will play a key part if a strategic war takes place at some point, similar to the kind of pressure Europe faced because of the Russia-Ukraine crisis. Singapore is exposed in the same way to a potential conflict between the US and China. This is a problem that requires addressing.

The other aspect of this polarisation is that a lot of family offices and companies want to get domiciled in Singapore. While that is good for business, this could invoke a response from the US because a lot of companies being domiciled in Singapore still have operations in China and Taiwan, and are trying to supply goods and services to the rest of the world. This could, at some point, come under scrutiny. Singapore needs a policy to protect those businesses as long as it serves the city-state’s interests. Singapore is not choosing sides between the US and China because both remain very key to its growth trajectory going forward.

Singapore has a position of leadership due to its identity as a global trade and finance hub, especially now with Hong Kong having taken a step back in recent times. A lot of investment and forward thinking is required to maintain that position. A look at the global macro landscape shows that there are challenges. There will also be a renewed focus on climate change and the Environmental, Social, and Governance (ESG) movement, which had been side-lined over the course of 2022 because of the demands of society.

Discussion Session

Fiscal Policy to Address Inflation

Mr Chee was asked how fiscal policy might be used to address inflation. He stated that the government approaches the issue of higher inflation through a multi-pronged strategy. On the monetary policy side, MAS is using the exchange rate to make sure the Sing Dollar remains strong. On the fiscal side, the government looks at measures in two broad areas.

First, the government aims to cushion the impact of higher inflation affecting businesses and Singaporeans. For the former, the government is helping them adjust by factoring in higher prices in certain areas, like electricity. It is about helping businesses become more energy-efficient by providing coal funding subsidies of up to 70 per cent when they implement energy-efficiency measures. If they successfully do it, this is a “win-win” because on the business side, they will be able to reduce their costs and put themselves in a stronger position to be more energy-efficient.

Second, for families, there are also non-economic considerations, especially when it comes to the social impact of higher prices on low and middle-income families as well as retirees. Hence, when the government formulates policies, it also factors in some of these other considerations. The S$1.5 billion-dollar support package that Deputy Prime Minister Lawrence Wong announced during the 2022 Budget for low- and middle-income families was done in three tranches. It was done again in June and more recently in October with another S$1.5 billion support package. These amount to S$3.5 billion worth of financial support that goes towards helping lower- and middle-income families deal with higher prices.

Policy Initiatives to Strengthen Singapore's Resilience

A question was posed to Mr Chee about what more could be done in policy terms to strengthen Singapore's resilience. He responded by noting that the diversified nature of the Singapore economy had given Singapore stronger resilience over the years. However, even for ICT and financial services, a lot of the demand is not just within Singapore, but the region as well.

The reason for this is because Singapore is open and connected with regional markets, be it in manufacturing or services. Singapore's openness allows it to be well placed to enjoy further growth in emerging areas. Hence, this willingness to be connected with the larger markets in the region will be important.

In this regard, another more important element is the need to maintain stability, strong rule of law, and a predictable regulatory environment. Policies based on populist sentiments would introduce greater uncertainty for businesses, and make it harder for companies to plan long-term and decide on investments. If this is done, confidence in Singapore will be eroded. This will compromise Singapore's position as a hub.

The Nature of Capital Flows

A question regarding the transient nature of capital was raised within the context of investments in Singapore. In this vein, companies were looking to invest in terms of dollar-value and people. However, they could not commit to Singapore long-term as some of the recent moment of capital into Singapore were raising concerns surrounding affordable housing and the cost of living. As a result, they were looking to relocate their talent and businesses elsewhere as they could not predict what Singapore would look like if "fast money" left Singapore. By extension, how was the Singapore government prepared to continue establishing social cohesion, friendliness and openness to foreign talent, especially when there was uncertainty over that instability?

Mr Chee stressed that Singapore was certainly not looking at "fast money" as a source of growth, because that was not organic. Rather, Singapore's strategy is to be able to develop an ecosystem, whereby companies want to place their capital in longer-term investments that will strengthen said ecosystem, build deeper capabilities, and allow them to achieve longer-term sustainable growth.

Mr Chee reiterated the government's desire to encourage employees of companies who wanted to sink roots, integrate and contribute to Singapore society, to apply for permanent residency (PR) status or citizenship. This is part of what Singapore should be as an open society and immigrant society.

Singapore's Future Energy Plans

Concerns regarding Singapore future energy plans were raised within the context of the current energy crisis and the exposure of some of the inadequacy of existing infrastructure in aiding the energy transition to renewables. In this light, what is the strategy of Singapore's future of energy? Is Singapore still looking at balanced growth with some basic supplies coming from fossil fuels, but at the same time, continuing to push towards more renewables? Does Singapore have enough infrastructure to meet the growing demands of energy if it shifts 100 per cent to green energy?

Mr Chee noted that Singapore's energy challenge would remain for quite some time. The only way out of that constraint is if nuclear energy becomes safe enough to be used in Singapore. There are doubts as to whether that will happen in the foreseeable future as the government does not think that will be so readily available or accepted by the population. Barring that, Singapore did not have choice when it came to being energy self-sustaining. Hence, it still had to import energy from its neighbours, as well as improve energy efficiency and deploy as much renewable energy as possible to fulfil its energy needs.

Balancing the Books

A participant asked how the government intended to balance the books regarding the S$8 billion assurance package in the coming budget. Mr Chee posited that the government was ready to fund the S$8 billion dollars from the resources it had. Furthermore, it had a system in place that would allow it to balance the books, especially if more money was needed. The government could not spend more than it earned. That discipline is something it wants to adhere to as much as possible, especially during a crisis like COVID, when past reserves were used. However, those should be exceptions rather than the norm.

The government feels very strongly about not wanting to end up taking away resources from past reserves that will then affect future generations. It prefers raising more revenue through measures like GST, to fund higher expenditure because of ageing and other things in a sustainable way. A look at budget 2020 shows that the government has raised revenue through initiatives like income and property taxes from the higher end.

Mr Chee concluded by stressing that it was easier to meet fiscal needs, and have a balanced budget, if there was sufficient growth. If there was growth, it would be easier to balance the books and still hit high spending. A stagnant or shrinking economy would not allow Singapore to do this.

Session Two: Base Erosion and Profit Shifting (BEPS) 2.0

The Two Pillars of BEPS 2.0

Ms Tan from MOF spoke about what was happening in the international tax scene. She noted there were two essential pillars to BEPS 2.0, a huge multilateral exercise that involved more than 130 jurisdictions.

Pillar One aims to redesign the rules on the allocation of taxing rights — allocating some of the taxing rights for profits, not where the activities are conducted, but to jurisdictions where the markets are. Currently, profits are allocated and taxed in jurisdictions where economic activities giving rise to profits are fully conducted. Taxing right belongs to those jurisdictions where activities are conducted. Pillar One seeks to take 25 per cent of residual profits, defined as profits in excess of 10 per cent profitability, and assign this share to where the customers are.

This is quite a major change, which, if implemented, is clearly going to affect jurisdictions differently. For Singapore's small market size and the fact that much of the economic activities are conducted domestically, Pillar One would be a revenue-losing exercise for Singapore.

Pillar Two seeks to introduce a global minimum effective tax rate of 15 per cent. This is to be done by looking at the group effective tax rate (ETR) of multinational corporations (MNCs), not individual companies, in each jurisdiction where these MNCs operate. If the MNC group ETR in Singapore is less than 15 per cent, which is the global minimum ETR, this particular MNC will have to pay additional taxes, such that its effective tax rate at the group level in Singapore is at least 15 per cent.

Pillars One and Two do not affect all companies. Rather, they affect large MNCs. There are different revenue thresholds for both pillars.

Jurisdictional Rules Regarding Pillar Two

Mr Woo from PwC Singapore added to Ms Tan's comments by elaborating on Pillar Two of BEPS. He agreed that there was going to be a high degree of competition. Various jurisdictions at the moment are looking to introduce a qualifying minimum top-up tax. Singapore announced a reduction of the alternative minimum tax of up to 15 per cent. Many countries are also looking to introduce this.

The OECD has provided an estimate that Pillar Two will result in additional taxes of US$150 billion dollars globally. This may result in additional sources of revenue for Singapore. With that being said, tax incentives are still going to be relevant in Singapore as there still are many companies that are below the €750 million threshold. This means two systems are going to run in parallel. Hence, there will be a need to forecast the impact this would have for overseas based-MNCs and MNEs at a jurisdictional level, as they would have to look at Pillar Two on a country-by-country basis.

This would bring about many convoluted rules that have not been published. This is a problem as Pillar Two is not law yet. Mr Woo predicted that it would come about very soon, between January 2023 and 2024. There are less than 13 months to get ready for it. This is not enough time. The ability to completely account for all the calculations on a timely basis is also needed as soon as possible. Hence, it is important to properly convey the full extent of BEPS to key stakeholders such as companies, businesses, banks and corporations so that they have adequate time to prepare for its implementation.

BEPS 2.0 from a Practitioner's Viewpoint

Mr Segar from Maybank expressed his opinions as an in-house tax practitioner. He stated that Pillar One did not affect Maybank, and that Maybank operated in about 17 countries, where the tax rate was between 25 to 30 per cent. There is a handful of locations where Maybank pays lower taxes. These include tax rates for Hong Kong which stands at 16.5 per cent, and Singapore, which is 17 per cent. For the Singapore branch, income is consolidated back in Malaysia and involves a top-up of 24 per cent. Hence, Maybank is not too worried about Pillar One.

However, the key worry for Mr Segar was the compliance work surrounding Pillar Two. He suggested regulators try to make it simpler, especially for corporates like Maybank that may fall out of the minimum tax rate as they were paying more than 15 per cent. This would be a key factor for corporates, whether in Singapore or any other country. It is a priority for Maybank and work must be done to prepare for the implementation of Pillar Two. However, getting resources, budgets and talent is going to be very difficult. What more does Maybank need in order to comply? How do you ensure data quality in preparing to adhere to these very onerous compliance requirements? These are things that Maybank is concerned about.

Mr Segar agreed that the top-up tax was a must-do and a stop-gap measure that everyone had to implement immediately. This was crucial as countries did not want to lose revenue to other countries. Furthermore, the current fluid environment ensures that no one really knows what is going to happen. As a result, the relevant authorities had to start coming up with legislation. It would be good for governments to review tax incentives and look at other incentives that may generate similar types of benefits like grants.

Discussion Session

The Impact of BEPS on Investments

A question regarding the impact of Pillar Two on investments in Singapore and the rest of the world was raised. To this, Mr Woo answered that the beauty of BEPS was that 130 countries had signed up to it. As a result, there was nowhere to run or hide. He stressed that Singapore was still a good place to do business. In this sense, the question was whether Singapore was able to make sure the transition was painless as possible. BEPS was not going to be the driver for investments to be poured elsewhere unless it made good business sense. That was a "cold" but real comfort.

Timelines for the Implementation of BEPS

Another question pertaining to the earliest Pillar Two would be implemented was levelled at the participants. In this context, participants wondered if the earlier January 2023 timeline projected by Mr Woo was set in stone. As an extension of this, what was the likelihood that Pillar Two would be implemented?

Mr Woo clarified that although his prediction was January 2023, there was still a great deal of uncertainty and some changes in the OECD. There were differing views that it could get delayed. However, Mr Woo's opinion was that at minimum, it would come in latest by 2024. Yet, even if this was the case, the complexity of what was needed was going to be very challenging for many businesses. Once again, a lack of legislation by many countries was contributing to this. However, there was a possibility that Europe would move on this first with many countries watching carefully.

Ms Tan added to this by arguing that countries were looking for new means of revenue due to high fiscal spending during the COVID-19 pandemic. This was further compelled by pressure from their domestic populations for more money. Hence, the push for BEPS had been accelerated by these trends. Ms Tan also noted that the European Union (EU) was having difficulties reaching a consensus on BEPS 2.0 amongst its members states. However, certain EU states wanted to adopt it by amending their domestic law.

Singapore has not committed to a particular timeline as it wished to monitor international developments and how other governments are responding. What it is doing instead is getting ready with industry players to start drafting law to implement the domestic top-up tax.

Mr Segar shared that he personally looked to see how anything new could be applied across the group regardless of the absence of legislation. He revealed that Maybank had already started analysing what it needed to do in preparation for Pillar Two, in accordance with the government's intention.

The Scope of BEPS

A connected question regarding the scope of BEPS was put to the panellists. Was there an estimate as to how many MNEs would fall under BEPS and what were the characteristics of these companies?

Ms Tan replied that under Pillar One, all large MNCs were affected unless they fell within the carved-out sectors like financial services. However, Pillar Two was quite universal in its coverage of sectors. Hence, practically all sectors would be affected in Singapore's case. She estimated there were around 1,800 MNE groups in all sectors that would fall under Pillar Two.

R Avinash is a Research Assistant at IPS.

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If you have comments or feedback, please email ips.update@nus.edu.sg

Lee Kuan Yew School of Public Policy
National University of Singapore