

S'pore is most open economy: Report

Dickson Li

The Straits Times, 30 January 2010

Republic scores for its openness to trade and labour movements

Singapore leads the world as the most globally connected economy, after edging out regional rival Hong Kong, according to an inaugural study.

The key factor that drove the Republic to the top of the list compiled by Ernst & Young and the Economist Intelligence Unit (EIU) was the far-reaching tentacles of trade.

The Globalisation Index 2009 report released yesterday said the 'movement of goods and services' in Singapore relative to total output outshone all comers.

With total trade volume of more than 300 per cent of output - since many goods are simply turned around at Singapore ports - the Republic attained a score of 9.59, the highest of all 60 economies. Hong Kong registered 8.66.

This criterion measures the volume of a country's trade as a percentage of its gross domestic product (GDP) - a measure of economic output - and other factors such as trade openness, and any trade barriers, as rated by EIU analysts.

Experts, however, pointed to some downsides to being the most open economy. 'During the global recession, Singapore exports saw the biggest fall ever and this dragged down GDP in the first quarter,' said HSBC economist Robert Prior-Wandesforde.

The local economy suffered a 9.5 per cent year-on-year contraction in the first quarter of last year, he noted. 'We've since seen the reverse as regional demand has led Singapore out of the recession.

'(Our open economy) seems to have led to very volatile growth...we've had four recessions in the last 12 years. Given the frequency of international shocks, the globalisation of Singapore has contributed to the boom-bust nature of the economy,' he said.

The world's 60 largest economies studied were ranked using five criteria - openness to trade, capital movements, exchange of technology and ideas, labour movements, and cultural integration.

Small economies, which 'rely more heavily on international markets for their growth and economic prosperity', said the report, dominated the top of the charts, with none from the Group of Seven appearing in the top 10. For instance, the United States, the world's No.1 economy, naturally scored lower in terms of trade flows relative to output. It ranked 24th. China came in 40th.

'The index measures the relative level of a global engagement of a country, not the absolute impact a country has on the global economy,' said Ernst & Young country managing partner Steven Phan at a media release of the report yesterday.

In terms of the movement of capital and finance, measured by foreign direct investment and flows of 'hot money', Singapore fell slightly behind at 6.17, against Hong Kong's 6.93.

Mr Prior-Wandesforde said this was less about the ease of capital movement, and more because of Hong Kong's closer links with mainland China: 'The potential for money to move in and out of Hong Kong is greater,' he said.

Openness to labour - a hot topic here - saw Singapore score 6.27, far higher than Hong Kong's 3.93. It assesses the net migration for the year as a percentage of total population, and the ease of hiring foreign nationals, among other things.

'Some residents will not feel comfortable with the influx of foreign immigrants, and policymakers have to be cognisant of that,' said research fellow Leong Chan Hoong of the Institute of Policy Studies.

But openness to labour movements will bring diversity that adds to Singapore's competitive advantage.

'An organisation with diverse skills representing the diverse cultures and needs of Asian markets - that's what you can get in Singapore, more than any place else,' said Mr Phillip Overmyer, chief executive of the Singapore International Chamber of Commerce.

Given a choice between Singapore and Hong Kong, two equally open economies, with the exception of labour, which would businesses choose?

'If you wanted to focus heavily on China, then Hong Kong looks attractive. Singapore's advantage is in diversity of management, if you are focusing much more widely in the region,' said Mr Overmyer.

Looking ahead, however, Ernst & Young expects Singapore's 'movement of labour' score to fall more than 30 per cent this year, in response to the shift in emphasis from bringing in foreign workers to increasing productivity, Mr Phan said.