

## Report on the 28<sup>th</sup> Singapore Economic Roundtable

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THE 28<sup>th</sup> 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 more than 40 participants—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).



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The roundtable was chaired by Manu Bhaskaran, Adjunct Senior Research Fellow at IPS, and conducted under [Chatham House Rule](#). The proceedings of the 28<sup>th</sup> 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 (US, Japan and the EU) show positive signs in indicators such as employment, although wage growth continues to be slow.

Asia is experiencing stronger positive growth than elsewhere. Recent GDP growth in the ASEAN 4 (Indonesia, Malaysia, Philippines, and Thailand) has also been matched by a smaller 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 per cent 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 it is still showing signs of significant slack. The Monetary Authority of Singapore (MAS) [Labour Market Pressure Indicator](#) has risen, after 11 consecutive quarters of decline. Resident wage growth was, however, noted to be still under the 10-year rolling average.

Inflation remains low, with the MAS' Consumer Price Index (CPI) All Items and Core Inflation registering 1.5 per cent and 0.4 per cent respectively, including the 30 per cent 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 Purchasing Manager's Index (PMI) is at a 78-month high. The Eurozone, in particular, is showing a very strong increase in the PMI. Participants agreed that the technology sector was responsible for a large proportion of this growth.

## Highly positive outlook for Asia-Pacific economies

Asia-Pacific 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 per cent in the near-term, while India is expected to experience 7 to 8 per cent 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 put a drag on economic growth.

For the other Asian economies, exports have been strong, such as in 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, Asia-Pacific would be the hardest hit, with a presenter forecasting a 2.4 per cent decrease in GDP in the region.

## Key risk: Need for Singapore to prepare for regional developments

Participants suggested that Singapore should focus on sectors supporting increasing regional connectivity, such as finance, legal services, accounting, engineering and tourism. Sectors of less importance 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.



### 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 that the likelihood of a “hard landing” for the Chinese economy in the next three years would be around 25 per cent, it was also noted that the Chinese government was adept at 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. At the same time, this may be due to the recent low base.

The composition of Singapore's upturn in electronics output appears to be in products such as sensors in vehicles, suggesting that the final demand composition has changed. Performance in

this sector is expected to moderate in 2018, but it is difficult to forecast the composition of final demand in the medium-term, 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 consider 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 has committed to building an ASEAN Economic Community by 2015. As of end-2015, ASEAN has implemented over 90 per cent of the measures (475 of 506) under the Blueprint.

However, it was pointed out that headline commitments are often not realised, with many agreed initiatives unevenly implemented across ASEAN countries. ASEAN countries are currently rated poorly in terms of Government Effectiveness, Regulatory Quality and Control of Corruption. Participants noted that 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 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 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.

#### **Problem: Development divides within ASEAN**

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

#### **ASEAN + X Will be the dominant model**

Despite the issues mentioned, 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.

#### **Opportunity: Increasing cost of business in China**

The AEC does present opportunities for its members. Many businesses appear to be moving certain operations out of China, due to the rising costs and higher diligence in tax collection there, presenting an opportunity for AEC member states.

**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 generally agreed that the AEC is on the path to overcoming its problems with implementation. However, most companies lack both the resources and know-how to utilise the relevant agreements. The private sector needs more guidance to properly reap the benefits of the AEC.

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*If you have comments or feedback, please email [ips.update@nus.edu.sg](mailto:ips.update@nus.edu.sg)*



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