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Why a forward-looking Budget is needed

S'pore's pre-emptive strategies have served it well in mitigating crises in the past. Will it have the resources for the looming challenges ahead?

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Office workers in the financial district. Singapore's fundamental strategy in effective crisis management is rooted in preventive and pre-emptive moves, rather than cures. And it has remained competitive in global trade by seizing opportunities and making itself relevant in the face of changes. PHOTO: REUTERS

At an international conference in Budapest organised by the Central Bank of Hungary last week, there was an intense debate among participants on the effective role of central banks.

Singapore was repeatedly identified as an exemplary model where the central bank and the government have consistently done well in crisis management.

The discussion of the Singapore model among central bankers was dominated by how Singapore effectively managed crises, leading to a swift rebound from every economic recession or slowdown. However, I thought the debate largely missed the point – the severity of the crisis in the first place was mitigated, due largely to strong and stable macroeconomic fundamentals and efficient resource allocation for firms and individuals within the micro-economic environment.

PREVENTION RATHER THAN CURE

Singapore's fundamental strategy in effective crisis management is rooted in preventive and pre-emptive moves, rather than cures. The recent prudent regulations on property purchases, sales and bank-related borrowings, coupled with pre-emptive market cooling measures, are just a case in point.

As a small and open economy, Singapore's macroeconomic condition is constantly and strongly influenced by external factors. These include business cycles, financial turmoil and tumultuous political changes coming from Asian neighbours, or economic volatility transmitted from Western economies in an inter-connected and inter-dependent world.

Despite these volatile factors, Singapore has remained competitive, staying ahead of the curve in global trade and investments. It is able to do so by seizing opportunities and making itself relevant in the face of changes.

Singapore's longer-term survival rests upon its continuing to actively pursue globalisation under the World Trade Organisation.

FREE TRADE AND GLOBAL OPPORTUNITIES

When Singapore was the rotating chairman of Asean last year, regional Free Trade Agreements (FTAs) such as the Regional Comprehensive Economic Partnership were given a further push for the last mile of completion. Singapore's consistent support for the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is clearly stated; in fact, it first founded TPP together with three other member countries.

It would not be surprising if early exploration and preparation for a bilateral FTA between Singapore and the United Kingdom is already being contemplated by senior civil servants before Brexit comes into effect. Singapore's unrelenting leadership in FTA for greater economic connectivity and regional integration is widely recognised.

In 2017, Singapore for the first time rose to become the third most competitive financial centre in the world, after London and New York, overtaking Hong Kong from fourth position, according to a London-based think-tank.

Thus, establishing Singapore as an infrastructure evaluation, arbitration, investment and financing hub in Asia and promoting internationalisation of the yuan are simply part of new opportunities that have surfaced under the Belt and Road Initiative which it must quickly seize upon.

Urbanisation is the next phase of development for China and India, and the growth of their middle class is powering their domestic consumption.

Singapore's businesses and government-linked companies must gain deeper footholds in their urbanisation drive by setting new standards. As a city-state, we have the advantage of providing comprehensive smart urban solutions.

> **1.79%**
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> What Singapore's productivity growth would have to be at per annum, for the economy to grow at 2.79 per cent, according to an econometric model simulation by the Asia Competitiveness Institute at the Lee Kuan Yew School of Public Policy.

And for the expanding middle class, which possesses strong purchasing power, Singapore as a cosmopolitan city offers an attractive modern lifestyle. This is highlighted by several international studies that have ranked Singapore very highly in terms of e-commerce, digitalisation and city liveability.

FIRM HOME FOUNDATIONS: THREE COMPONENTS

To seize opportunities arising from new development trends globally, there must first be a conducive business environment and a competitive corporate tax structure at home; these are vital for small and medium-sized enterprises to build strong foundations and prepare to venture abroad.

Good fiscal discipline with forward-looking budgetary planning, and ensuring general price and exchange rate stability at home are important too as "safety buffers", enabling companies to better cope with the next economic downturn or financial crisis. They are preventive measures critical for healthy and robust business expansion. Second, efficient allocation of government resources for provision of public goods and services, transparency of regulations, good governance and firm rule of law at the micro-economic level are the sine qua non of incentivising businesses and individuals to realise or maximise their potential economic contributions.

Together, these provide the strong foundations that are necessary for the economy if our longer-term average growth in gross domestic product (GDP) is to stay at the higher band of 3 to 5 per cent per annum, which would also mean more job choices for citizens.

Third, whether it is soft capacity building by investing in people or building hard physical infrastructure, both are critical in maintaining Singapore's international competitiveness. Markets often fail when it comes to capacity building and skill upgrading. Government must thus act as a market enabler.

In an era of rapid technological and digital advancement, transformation of companies can be difficult in terms of management, marketing and manpower adjustments.

Multi-stakeholder-driven Industry Transformation Maps involving major industry players, unionists, business professionals, academics and the Government would be more appropriate, rather than leaving it to the more painful creative destruction by market forces for adjustments.

GROWTH AND REVENUE OUTLOOK

From 2011 to last year, Singapore's annual GDP grew at an average of 3.7 per cent. Over the same period, the average annual productivity growth was 1.26 per cent.

Looking ahead, the econometric model simulation by the Asia Competitiveness Institute at the Lee Kuan Yew School of Public Policy, relying on several assumptions, including labour-capital quality growth and one per cent employment growth, projects that for the economy to grow at 2.79 per cent, Singapore's productivity growth would have to be at 1.79 per cent per annum.

The productivity growth last year was around 2.6 per cent and is expected to improve gradually.

When preparing a national budget, the finance minister would usually examine the forecast GDP growth, look at the estimated government revenues versus government expenditures and, in the case of Singapore over the last two decades, factor in the amount of Net Investment Income (NII) that can fortunately be drawn upon to help in the event of budgetary shortfalls.

Contributions of NII to the Budget have gone up over the years, from an average $2.72 billion per year over the 2000-2008 period to nearly tripling to $8.13 billion per year between 2009 and 2015, and almost doubling to $14.94 billion per year from 2016 to 2018.

The NII contributions have risen over time, especially since 2009, in large part to rein in and mitigate the effects of rising income disparity. Special Transfers were made to provide extra funding for essential public services, including healthcare, transportation, housing and education.

As our population ages rapidly, more financial resources will be needed for healthcare and benefit-linked packages such as the Pioneer Generation and the forthcoming Merdeka Generation.

Given the challenges posed by the digital economy and the high value-added, skill-driven economy, pressure for greater public funding for various productivity improvement and skills training programmes is also expected to rise. Public investment in quality education from infancy, life-long learning and targeted skills-driven growth are critical as part of overall efforts to reduce income disparity and ensure a more inclusive society in the long term.

Money also needs to be set aside for growing infrastructure demands. For instance, airport and sea port expansion will be needed if Singapore is to remain a major logistics hub in Asia.

In the uncertain years ahead, what if Temasek Holdings and GIC fail to deliver expected profits, of which 50 per cent must be locked in the national coffers, to provide the funding for these expected additional demands on the Budget?

TRADE PROTECTIONISM

Trade protectionism and nationalist muscle-flexing are on the rise worldwide, including in our neighbourhood. The threat of terrorism remains while technology-driven disruption has sown job and economic uncertainty. These developments and trends are unlikely to go away in the medium term.

Singapore has done well thus far with its pre-emptive strategy in economic management. Faced with these rising challenges, a forward-looking Budget ought to strengthen our foundations for delivering macroeconomic stability as well as set aside ample financial resources that will, with policy-restructuring measures, continue to provide micro-economic efficiency and soft- and hard-capacity building.

However, the public at large and the business community would need clear assurances from the Government and the finance minister, in particular, on whether Singapore will have, in time to come, sufficient financial resources to respond nimbly and appropriately to the potential disruptions and challenges on the horizon.

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