

Challenges and Opportunities of Singapore after the Global Financial Crisis since 2008/2009

Huang Xian Yu

¹Chu Hai College of Higher Education (Hong Kong)

Abstract. This paper aims to analyze the challenges and opportunities faced by Singapore for the purpose of sharing and brainstorming. It resorts to the use of both the practical approach and academic models and theories to resolve the various external and internal problems of Singapore for brainstorming and open discussion

Keywords: Challenges, Opportunities, Singapore, Financial Crisis, Housing Price, Certificate of Entitlement

1. Introduction

After the collapse of property market in the year of 2008, housing prices in US tumbled by as much as almost 40%¹. Values of the related derivatives tumbled substantially and many financial institutions fell into financial difficulties and bankruptcies. These led to substantial shrinking of credit and liquidity in the banking system leading to economic recession. Singapore, being one of the active members in Asia, inevitably faces challenges such as Currency appreciation, High housing, rental, car and COE (Certificate of Entitlement) prices, Impact on Foreign Direct Investment (FDI) and economic growth.

2. IS-LM model

We may resort to IS-LM model again to resolve the problems of Singapore (Strong Sing dollar + Inflation) as follows.

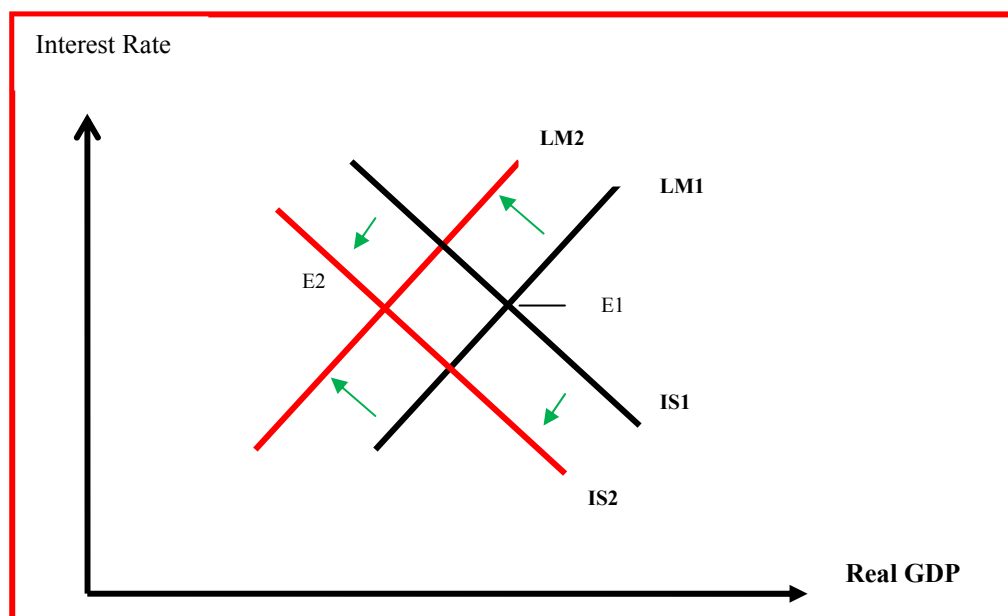


Fig. 1. IS – LM model for Singapore economy

By using Contractionary fiscal policy (FP), IS curve shifts from IS1 to IS2. By using Contractionary monetary policy (MP), LM curve shifts from LM1 to LM2. Equilibrium changes from point E1 to E2. At E2, lower real GDP reduces Aggregate Demand (AD) and inflation and preventing escalation of currency

¹ <http://www.jparsons.net/housingbubble>, last seen on 20 October 2011

value. Contractionary FP could be done via auctioning out various government services such as public transport, town and tourism related planning and developments. Contractionary MP could be done via tightening of interest rates and increase in bank reserves.

3. Administrative policies

Besides contractionary MP and FP, strong currency and inflation could be resolved using administrative policies as follows:

3.1. Increasing Density, Provide Creation Facilities, Fully Utilize MRT Stations.

Increasing the density of housing development including uplifting the maximum heights of property developments and reducing flat areas with creation facilities solves the shortage of supply and upgrading enjoyments of the nation.

3.2. Increasing Land Supply, Supply of Reclaim Land or Buying Land from Southern Part of Malaysia

Besides exploring unused land and reclaim for land from sea, Singapore could also consider buying part of the land from southern part of Malaysia for housing developments especially for the elderly, retirees, holiday resorts, developments for especial industries such as Chinese medicine, construction industries and health care.

3.3. Lowering Income Ceiling on Expensive Public Housing

Some influx of immigrants are highly skilled labor. They should have the financial ability to purchase more expensive public housing like condominium and hence they should be excluded from the queue for HDB flats. By lowering the minimum income requirements for purchasing condominium would shift these groups of people from HDB to condominium leaving more HDB flats for the lower income groups.

3.4. Building More Economical Housing for the Especial Groups

Increase building smaller and economical housing and rent them to the aged and lower income groups could help solving some of the demand for HDB flats.

3.5. Satellite Towns

Develop more satellite towns with equipped infrastructure also increase housing supply in private and public housing markets.

3.6. CBD (Central Business District)

Expand the central CBD (Central Business District) from Raffles Place, Shenton Way to outer area would also increase the supply of commercial offices.

3.7. Underground

Develop underground towns could also increase the supply for commercial office and residential housing.

3.8. Auction Public Transportation

Economic theory tells us that when there is demand for a good, the solution is not to suppress the demand or supply leading to distortions in market but to increase the supply to meet up with the demand. Specifically, instead of controlling the supply of private car and COE via administrative policies such as tax or quota, Singapore might improve its public transportation as an alternative to reduce demand for private cars and COE. One of the ways is to auction out the operations and running of public transportations to different types of vehicles (for example, 16-seat small vans) with prime principles of efficiency and frequencies in transport. These increase the consumer choices of transportations and efficiency in the transport markets. Improvements in public transport automatically reduce the demand for private cars, car price and COE.

3.9. Fair and Open Competitions in Recruitments of Talents

Actively recruiting talents with good academic standings and strategists with international exposures and perspectives. Existing recruitment system might be reviewed. Instead of scanning candidates for interview at the discretions of the interviewers or organizations, all candidates meeting the stated job requirements should be invited for interview to ensure objectivity and fairness. Remunerations commensurate with the recruits might also be made open to increase transparency.

3.10. Open Forum

Encourage diverse Teams consisting of different backgrounds such as economist, strategist, employers, workers, government representative, grass-roots, academic and representative of relevant public or private organizations might be formed to holding open forum periodically with direct interactions at open space, TV, QQ, etc. for debates and discussions on government policies and to listen to different opinion, views and suggestions. Forum should encourage direct and interactive dialogue, comments and / or criticisms with open minds, receptions and international perspectives. as studies, training, experience and exposures via traveling, internships and exchanges of programmes

3.11. Encourage Overseas Studies, Training, Experience and Exposures Via Traveling, Internships and Exchanges of Programmes

Traveling, internships and exchange of studies and programme in civil service sector, polytechnic and universities are certainly helpful too. Let people learn by their own via their own adventures. By overseas experiences and exposures, they are aimed to trained people with more independence, resilience, maturity and with international perspectives

3.12. Encourage Continuous Studies, Self-Development and Self-Improvements

Open up courses with diversities and variations from overseas and local, increase competitions and openness of various industries, fully utilize the talents of the academics, reviewing the existing curriculum of the tertiary institutions from textbook serotype to applied research and development groups to reach the captioned objectives.

3.13. Open Industries for Diversity, Variations, Creativity and Competitions

Encourage developments of new industries such as chinese medicine, make-up, fashion design, etc. by giving tax subsidy and provision of training and courses.

3.14. Use of Monetary Policies

Use of interest rate for example, housing, personal loan, excess reserve rate, etc, as part of Monetary policy, to adjust the money supply and Real GDP in economy. These might be performed via internal co-ordination with the relevant organizations.

4. Opportunities of Singapore

In spite of the challenges, the crisis could also mean opportunities for Singapore and the followings might be considered:

4.1. Issue Singapore or Asia Bonds.

By issuing Singapore or Asia bonds, it provides the investors a choice for safe haven asset domestically and internationally and to help developing capital markets in Asia. These do not only strengthen Singapore's standing as international financial centre in the world, but also provide more safety network for the people in terms of their personal investment and retirement plan. Given the global economy and that there is no substitute for US dollar and US securities, it is expected that the Singapore or Asia Bonds will be popular and serve as an alternative safe haven asset and kept as foreign reserve by many countries in the world.

4.2. Take a More Leading Role in Considering Setting Up of Asean + 3 (China, Japan, Korea) or Yuan – Sing Dollar

This is a difficult task. It requires forming an international organization to performing macroeconomic surveillance report on Asean + 3 (China, Korea, Japan). Recently an international organization called AMRO had been set up in Singapore and chaired by mainland official for the captioned function. By taking

a more active role, Singapore does not only foster a closer relationship with China but also help to foster its role and importance as international financial centers and centers of talents.

4.3. Act as an Overseas Financial Centre / Agent for China

The problems in Mainland China include the dispute of RMP value with US, its relatively immature financial system and its large populations and huge demand for RMP for trade and capital flows purposes. On the other hand, Singapore has well-established financial facilities, both soft and hardware in various aspects. Singapore may consider supplement the handicaps of Mainland China by collaborating with it including setting up centers and gather talents to resolve the issues.

Singapore has been appointed as an agent for RMP in Asia with China via bi-lateral agreement. Singapore might take a more active role in this aspect including acting as an offshore office for RMP and Singapore and / or Asia Bonds. Given its successful experience and prestige, Singapore could even provide consultative services to China in its plan to progressively developing itself into a more open financial system.

4.4. Benefits of Seignorage

Under the Current Act, issue of Sing dollar must be fully backed by foreign reserve giving Singapore no way to adjust its money supply and currency value to reach various objectives. On the contrary, printing of US dollar does not need to be backed by any reserves leading to the benefits of seignorage solely and prestigiously enjoyed by US. US is given such prestige to do so because its currency is an international settlement currency. The prestige had benefited US greatly in the past centuries in terms of the benefits of enjoying the outputs of the world 'for free' and use of monetary policies, including use of discount rate, reserve rate, reserve requirements, government securities, etc, in adjusting its internal economy. In particular, the benefits of seignorage increase as its currency value falls but at the expense of the world. By doing so, burden of its debt will be 'transferred' to the rest.

In view of the tremendous benefits arising from such prestige, the current economic situation of US and the mature and stable financial system of Singapore and the strong desire of Mainland China in expanding its RMP trade (and possible capitals in future too) and business with Asia and the world, Singapore might consider releasing its current Currency Act so as to give itself some leeway to reach various objectives including being a financial leader in Asia, benefits from seignorage, greater autonomy in currency system and monetary policy in adjusting its internal economy and the beneficial of the current economies.

The currency act of Singapore contains disciplinary procedure or system, which belong to internal matters of Monetary Authority of Singapore, and might be irrelevant to the legal tender of currency to public. They might be excluded from the current currency act.

4.5. Diversifications in Government Investment

Given the current global environments, we might also consider buying (1) special assets of the west which are at extreme low values now. They include technology, properties, banks, infrastructure (such as bridges, public roads, logistics, etc), pictures, sculptures, antiques, etc. ; (2) bonds that are backed or converted by these special assets or convertible bonds where bonds could be converted into these special assets when bond holder face risk default; and (3) bonds that are backed or guaranteed by International Organizations (such as Euro Central Bank, International Monetary Fund, etc). Besides functioning for diversifications, the assets could also be used as monetary tools in adjusting Singapore's economy when needed.

4.6. Foreign Exchange Rate System

RMP is pegged to a basket of currencies by officials. The official price of RMP relative to US dollar is released daily and subject to fluctuations daily within the band. The system allow the officials to 'control' the RMP value, leading to US's allegation that China is controlling its RMP value internationally, and at the same, adjust it when necessary – a mixture of fixed and flexible exchange rate is worth considering by Singapore.

To a certain extent, Singapore has been relying on intervention to 'control' its currencies by buying or selling Sing versus US dollar in the foreign exchange market. Intervention in foreign exchange market might

be distorting and relative ineffective and expensive to pursue the economic objectives. The example of BOJ (Bank of Japan) in the past decades is a example for our reference.

To avoid paying for the high cost from intervention, to maintain stable currency value and to foster a closer relationship with China, Singapore might consider linking its currency to a basket of currencies including RMP. Singapore might seek collaboration with China on the issue.

5. Conclusions

Financial crisis represents both challenges and opportunities not only to individuals but also to Singapore. The QEs and recent financial turmoil in USA and Europe lead to substantial depreciation of US dollar. Sing dollar appreciates substantially hereby affecting its trade performance and hampering FDI and competitiveness of Singapore.

On the contrary, the turmoil led to inflows of capitals into Singapore leading to surplus in its capital account. Overall, its balance of payments maintains at surplus leading to strengthening of Sing dollar, increase in Real GDP, rising wages and housing prices and inflation and costs of livings in Singapore.

On the positive side, the crisis fosters Singapore's position as a safe haven place for capital protections by international investors. On the negative side, it will hamper FDI, tourism, trade and costs of business running in Singapore. In particular, with low unemployment rate of 2.2%, FDI have to compete for labor by paying high wages, high rental and housing in Singapore leading to high operating operations hence hamper the long term growth and competitiveness of Singapore.

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