S’pore needs to be positioned to rebound

Keep track of long-term issues which affect economy: Lim Hng Kiang

ECONOMIC conditions will be tough but Singapore must not lose track of the longer-term issues that affect the economy’s competitiveness.

Trade and Industry Minister Lim Hng Kiang said yesterday “the global economy will eventually recover and we have to be positioned to bounce back”.

He was speaking at the inaugural joint National University of Singapore and Ministry of Trade and Industry (MTI) economic dialogue held at NUS’ University Cultural Centre.

Mr Lim said the Government had been “slightly more optimistic” about the situation in the United States, Japan and Europe at the beginning of the year, but the “outlook has now become darker”.

The US sub-prime mortgage crisis has led to a deleveraging process that has resulted in the “complete restructuring of the US financial sector”, he said.

Independent investment banks, long a staple of Wall Street, have now either collapsed or become commercial banks. The US Federal Reserve is also mulling over plans to nationalise banks by injecting capital directly into them.

Mr Lim said that with unemployment in the US rising and consumers holding back on spending drastically, the slowdown has spread to Europe and Japan, which both recorded negative growth in the last quarter.

Despite inflation showing signs of easing, he warned that the global competition for resources, as well as geopolitical events, may cause prices to spike again.

He said that one crucial and emerging challenge is in the energy sector.

Thus, the Government would have to strike a balance between regulating energy production and boosting economic growth.

He said that the energy sector presents “significant challenges” and that Singapore is still in “uncharted territory”.

Mr Lim opened the dialogue before a panel of economists discussed questions put forward by the audience.

Echoing the sentiments of Dr Tony Tan, executive director of the Government of Singapore Investment Corporation, in Washington on Sunday, panellists warned against a movement towards over-regulation when the world emerges from this crisis.

Mr Ravi Menon, the Second Permanent Secretary in MTI who moderated the discussion, said that what is needed is “smarter regulation” that will neither constrain choice nor innovation but make transparent the consequences of different choices in the financial system.

He added that “as long as there are financial institutions, there will be crises, because it is the operation of greed, fear and misguided expectations that form the root of all of this”.

However, rather than break up the system, he believes that it should be allowed to evolve with more emphasis on better regulation, risk management and transparency.

“What is needed is a system that is resilient, that can move from one shock to another, survive, pick up the pieces, regroup and continue to grow. That’s what modern capitalism is all about,” he said.

Two NUS economics students were also awarded Economist Service Awards for the first time at the economic dialogue. Mr Koh Wei Ning received the prize for academic achievement and Ms Dorecas Low Shu Juan, for the best thesis.