Headline: Too small to set prices? Not always
Source: *The Straits Times,* Review, pA28
Date: 1 July 2010

Too small to set prices? Not always

By Basant K. Kapur

Is Singapore really a price-taker in export markets, as is often claimed?

IT IS likely that Singapore is a price-taker in some export markets, but not all. Singapore is a small country and our firms tend to be small players in global markets. If the products they produce are easily substituted by products produced elsewhere, then they would not enjoy price-setting flexibility to any significant extent and would have to accept prices set in international markets.

However, not all Singapore firms conform to this pattern. In some industries, Singaporean or Singapore-based enterprises account for significant shares of global output. For instance, according to an Economic Development Board report released in March, "the country holds global leadership positions in several sectors like semiconductors and hard disk media".

In 2005, Singapore had a 25 per cent global market share for both printers and disk drives, although its share in disk drives may have declined somewhat since then. Firms in such industries are typically large and few in number, and they produce distinctive brands, all factors that tend to endow them with a degree of market power.

Moreover, even if each firm's market power is limited, the significant share the industry as a whole enjoys in world markets implies that it can affect the prevailing international price in response to an industry- or economy-wide change, such as a change in the exchange rate.

Even small firms in industries with limited global market shares can enjoy a degree of market power if the products they produce are not very close substitutes for products produced elsewhere. In economists' parlance, these are "monopolistically competitive" industries, producing "differentiated products".

For example, Singapore-made orchids or garments or furniture may have some distinctive characteristics that the corresponding products produced elsewhere do not have. Creative's Zen is a distinct brand from Apple's iPod (though this industry is more appropriately characterised as oligopolistic than monopolistically competitive). As long as different brands of the same product have different attributes, whether real or in the perception of consumers, their producers will have some price-setting flexibility.

Detailed research, industry by industry, will be required to estimate the degree of price flexibility that firms here enjoy in global markets. It is unlikely that many of these firms enjoy very considerable flexibility, especially in the long run. For industries in which fairly significant flexibility does exist, the effect of a change in the exchange rate between the Singapore dollar and other currencies on their equilibrium prices and output would depend on both demand and supply conditions.

The writer is professor of economics and director of the Singapore Centre for Applied and Policy Economics at the National University of Singapore.

Source:The Straits Times ©Singapore Press Holdings Ltd. Permission required for reproduction.