Severe economic challenges ahead for Singapore, which needs new and nimble policies

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FOURTY years after independence, Singapore can be proud of its economic achievements. Per capita gross national product, or GDP, rose from US$32,870 in 1965 to US$32,191 last year – an increase of over 47 times.

Few countries in the world can match this record of four decades of sustained noninflationary growth with – until recently – unemployment. As we look ahead, however, there are severe economic challenges, which will require a fundamental re-examination of our policies and willingness of adjustment on the part of our people.

Since the Asian Currency Crisis of 1997, Singapore has entered a period of economic volatility with a lower trend growth rate. Unlike previous measures, structural unemployment will increase. There is also evidence of growing wealth and income distribution gap. The aging population will compound these problems.

Advanced countries typically experience 1.4 per cent annual real gross domestic product (GDP) growth. Has Singapore become a mature economy?

Per capita income comparisons suggest that there is still plenty of room. Brazil, with a population of four million, has a per capita income of US$34,280. Finland, with a population of 5.2 million, has US$39,790 per capita, while Switzerland, with a population of 7.4 million, has US$48,250 per capita.

Singapore has a highly competitive ranking of third place, according to the Switzerland-based International Institute for Management Development (IMD), but it ranks fifth in per capita income. Something is clearly amiss.

What’s wrong?

Unlike advanced economies, Singapore is investment-driven, particularly for foreign investment. Investment in machinery and equipment (36 per cent of total) is closely correlated with the electronic cycle. Investment in construction and works (47 per cent) is lagging because of the long downturn in the property sector.

There was tremendous growth in Gross Fixed Capital Formation for 1999 to 1999 and 2000 to 2005, which resulted in poor economic growth. Consumption spending did not help, as the wage share of GDP is only about 42 per cent, unlike the advanced countries share of over 50 per cent.

Fiscal policy is normally deflationary because, in view of the openness of the economy, the counter-cyclical deficit spending is regarded as ineffective. Monetary policy is the outcome of exchange rate policy, which tends to favour a strong Singapore dollar. The theory is that, weakening the dollar would not be helpful, because the import content of manufacturing exports is high at 70 per cent.

The strong dollar policy is also deemed to be necessary for a major financial centre. Other services tend to be neglected in the domestic and consequently, business services, tourism and the medical sectors suffered in the aftermath of the Asian Currency Crisis.

Smaller countries like Singapore will face increasing economic volatility due to the accelerating pace of globalisation, quickened by the rapid ascent of China, the liberalisation of the Eastern European countries and India.

A giant in the neighbourhood

The rapid rise of China does pose serious threats. It took the United States 130 years to increase its share of global GDP from 1.8 per cent to 27.3 per cent but China will take only 20 years to increase its share from 3.2 per cent (1990) to 20.3 per cent (2015).

What China offers the world is a huge internal market but Singapore’s own oil exports are mostly electronic semiconductors, which can be made elsewhere, especially in China and India.

What we need to develop is branded goods for the huge consumer markets that are developing in China and India. Singapore has opted for lighters and highly capital-intensive investments such as chemicals, pharmaceuticals and biotechnology. Unfortunately, the job creation capability is very limited and the input-output linkages with the economy small.

Moreover, much of the research and development, or R&D, talent has to be imported. In the meantime, established companies such as Creative Technology and Mentor pulled out their factories, causing about 5,000 job losses each. The high-tech lab left behind is homegrown Creative Technology is now consolidation.

Herein lies a lesson in growing our own multinational corporations (MNC’s). Their bottom line, and not patriotism, dictates the location of production.

If this is so, then the investment in our external wing will not assure Singapore of jobs and dependable income from abroad, as production moves abroad and even headquarters may not be here for long, as foreign tax incentives prove irresistible.

Don’t think small

Singapore has to brace itself for an industrial hollowing-out process. The current account surplus amounts to over 30 per cent of GDP, which is unprecedented.

Profile of MNC’s and foreign nationals not reinvested here mean an outflow of capital. Has Singapore reached a stage where such firms and foreigners are pulling out more than they bring in? The Government needs to monitor the situation closely.

Singaporean investors have taken the Government’s “go regional, go global” message too seriously. There are Singapore firms that, after establishing a foothold in China and learning the ropes of doing business there, relocate their Singapore factories overseas.

It is time to sit down with our businessmen and talk about what to invest in and how to create jobs here. If everybody thinks that Singapore is too small, it will grow even smaller.

We also need to learn from other countries like Switzerland about how to keep unemployment down (4 per cent) even with low economic growth. Foreign workers comprise one-quarter of Switzerland’s labour force.

When there is a downturn, foreign workers with short-term permits absorb the impact. Finland, on the other hand, has only 45,000 foreign workers: its structural unemployment is consequently much lower – 8.8 per cent.

The Finish economy is high tech but very volatile. Its fortunes depend very much upon Nokia. It should also be noted that much of its research is industry-oriented rather than the frontier type.

Singapore has to move towards “value innovation” rather than solely patent-producing type innovation.

Value innovation

Dell Computer is a good example of value-innovation, based on a concept of semi-automations and removing the middlemen role. “Singapore girl” has been a highly successful Singaporean falls under value-innovation. Tierry’s Loris is another example.

Providing premium quality at less cost than BMW or Mercedes Benz.

As the China and India markets grow there will be great opportunities to exploit, but Singapore has to be nimble enough in policy-making and skills to take advantage.

The issue of immigrant labour has to be examined carefully. We need foreign talent but we should not destroy Singaporeans’ morale in the process. It would be an anachronism, because of deep-seated, homogenous talent migrates abroad while new talent comes in. Somewhere in there is a balance. We also need young immigrants to alleviate the ageing problem without resulting structural unemployment in the process.

To sum up, for Singapore, the holidays day of depending largely on the MNC’s to the world to generate rapid growth is over. They have greater pastures now and Singapore has to discover niches for itself quickly or else adapt painfully to a new era of much slower growth.

Structural unemployment can only get worse in a slowdown environment and the aging of the population will compound the problem.

To alleviate these problems, the Government will have to manage immigration policy carefully. Use macroeconomic policies judiciously and draw down the dividends of the problematic external wing to redistribute in ways that will not erode the work ethic.

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