Growing despite the pain

Though globalisation hurts some, tiny S'pore has no choice but to pursue growth: Economists

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LIKE a double-edged sword, globalisation has both enriched and impoverished. But while the effects are well-known, less certain is how best to deal with the ills of displaced jobs and widening income gaps.

Singapore’s approach, etched out in a seminal Budget on Thursday, is to remain open while spreading out safety nets. This is the only sustainable strategy for a tiny red dot, economists told TODAY.

“Singapore doesn’t have much of an option of whether or not to participate globally. It’s not like China, Russia or the United States — if they wanted to close their doors, they could contemplate it. S'pore is a tiny city state,” said Action Economics’ David Cohen.

In his maiden Budget speech, Second Minister for Finance Tharman Shanmugaratnam had mapped out how globalisation was driving the Republic’s sterling expansion. Businesses and talent were flocking here, while homegrown enterprises ventured out. Unfortunately, income distribution was worsening, with the low-skilled suffering slow or no rises in wages.

However, “the solution is not to grow more slowly or to focus less on growth and more on redistribution ... If we do this, it will only hurt the people we are trying to help”, Mr Shanmugaratnam said.

His top priority is to grow the economy. This entails a shift away from direct taxation, mirroring a global trend aimed at attracting foreign investments.

By cutting corporate taxes to 18 per cent from 20 per cent, Singapore becomes less expensive for businesses and comparable to, say, Hong Kong where the rate is (17.5 per cent).

Next, the Budget dished out incentives for small businesses, start-ups and emerging sectors such as philanthropy, financial and legal services. The target is to develop the city into a “trust hub”, while reinforcing the message that the world is welcome.

“For us, we don’t have much land or natural beauty, so we need to make the island attractive in other ways. Otherwise, we’ll be bypassed,” said Singapore Management University (SMU) economist Winston Koh.

There was also an eye on tomorrow. Millions of dollars will go into education for children and adults, infrastructure projects, and research and development, as the Government builds so-called “capabilities for the future”.

Education will be the key booster. "When the general educational level of the population increases, the economy as a whole can take on higher value-added jobs and offer the type of skilled workforce that can attract foreign investment,” Prof Koh said.

Also, mega investments such as the national wireless network and the shaping of Singapore into an energy hub will pay off as new media technologies and alternative energy demand take off.

This strategy is no different from that of recent years.

Said OCBC Bank’s head of treasury research Selena Ling: “Making the Singapore economy more competitive in the long term has always been the priority.”

The difference this time is a permanent Workfare Income Supplement scheme, where the Government tops up the salaries of older low-wage workers with cash and Central Provident Fund contributions.

“We must maximise opportunities for all but we must also accept that doing so does not result in equal rewards for all,” Mr Shanmugaratnam said in his Budget speech.

Hailing the regular scheme, United Overseas Bank economist Jimmy Koh said: “The widening income gap will become even more acute going forward. Globalisation is not a destination; it’s a journey.”

Which is why the use of Goods and Services Tax (GST) collections to partly finance social spending is a shrewd move, said CIMB-GK Research head Song Seng Wun.

Currently, a 1-percentage-point rise in GST is forecast to add about $800 million annually to the coffers. As the economy expands, every percentage-point hike will collect more than projected, he explained.

In that sense, the growth strategy works for society’s needs.

“It’s possible to achieve both rapid growth and to push everybody along,” said Prof Koh.