Mapping out S’pore’s economic strategies

Economic Strategies Committee’s main focus should be on how to boost potential output

by HOON HIAN TECK

As the ESC goes about its work in the coming months, it will be useful for it to reflect upon some guiding principles about the growth process in high-performance economies.

The first principle is that countries gain from specialisation based upon comparative advantage. A nation’s comparative advantage, however, is not static. Rather, it is dynamic and it changes over time as a result of past investment in physical and human capital as well as in knowledge creation.

Recent research also shows that a nation’s economic culture and institutions are important determinants of a country’s comparative advantage. Singapore can build upon its reputation of a business-friendly environment, strong intellectual property protection and an education system geared towards training scientists and entrepreneurial individuals to attract new business activities here.

The second principle is that countries benefit from a phase of catch-up growth as they become mature economies. During the phase of catch-up growth, countries grow at a much more rapid pace than the global economic average.

China, India and Vietnam come readily to mind as countries that are currently undergoing this phase of growth. Singapore, most likely, has reached the mature phase of growth. At this second stage of growth, the fact that will drive economic prosperity and generate challenging jobs is innovation rather than capital accumulation.

Singapore’s increase in research and development spending as well as its efforts to attract top scientists and researchers to the city-state to live and work will help us make the transition from being technology followers to being technology leaders, says the writer.

Economic output or long-run aggregate supply. Since the Economic Strategies Committee (ESC) has reached the mature phase of growth, the country has faced and surmounted past difficulties.

The global economy offers both opportunities and threats. As the ESC explores new strategies and identifies new business opportunities, it can look back at how the country has faced and surmounted past difficulties. It also has guiding principles to provide meetings.

The writer is professor of economics at Singapore Management University. The views expressed here are his own.