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OPINION

Economic Affairs

Forging a new consensus for the future economy

Some tough questions need to be grappled with and these concern foreign manpower, population size and pace of growth

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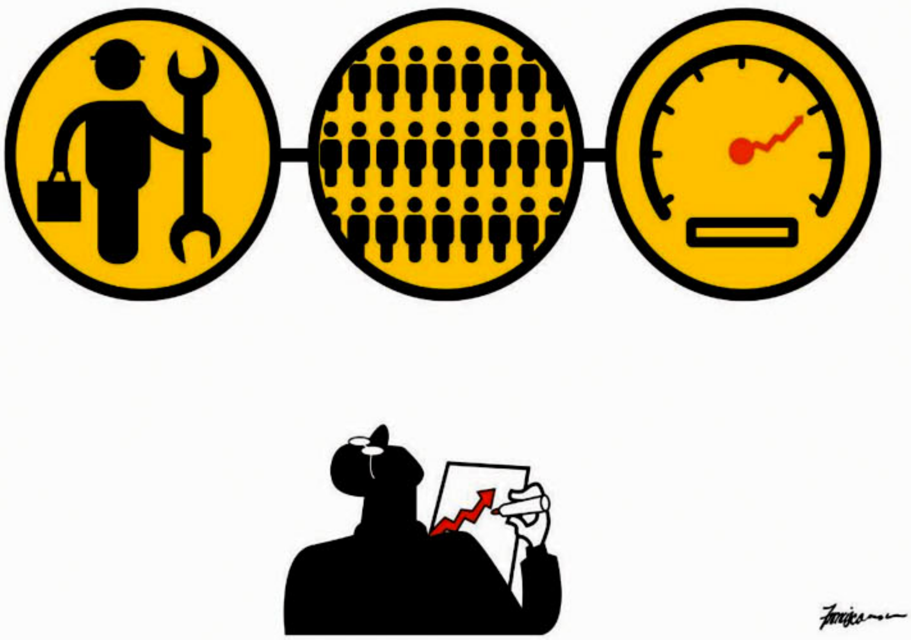

The Singapore economy seems to have entered a new normal of low and slow growth. There are more out-of-work residents and, last year, those jobless for at least 25 weeks took longer to find work as compared with the previous year. Business sentiment has softened and small and medium-sized enterprises (SMEs) have quite understandably been more adversely affected than multinational corporations (MNCs).

The cause of such a subdued economy is more structural than cyclical in nature as the Government has painstakingly engineered a productivity-driven revamp of the labour market, but old habits die hard and it takes time to change human resource management and work behaviour.

Meanwhile, in the Budget statement on Monday, Finance Minister Heng Swee Keat made clear the Government's intent to lend financial support to seven broad strategies tabled by the Committee for the Future Economy (CFE) to improve the longer-term resilience of Singapore's highly open city-state economy. This is taking place amid a challenging external environment of rising protectionism against global trade, disruptive change due to rapid technological progress, and heightened geopolitical tension.

BUDGET'S THREE PRONGS

This year's Budget can be said to have three prongs: ease companies' and workers' shorter-term pains and hardships, build capacity for the longer term so the economy can adapt and stay competitive, and further commit to keeping society inclusive and caring.

With companies finding it hard to cope with higher business costs due to wages, rentals, government fees and charges, the Budget sought to ease hardship for companies suffering due to a cyclical downturn in their sector by, among other things, deferring foreign-worker levy hikes, enhancing and extending the corporate income tax (CIT) rebate for the years of assessment 2017 and 2018.

The Budget also includes help and incentives to cushion firms, especially SMEs, going through painful sectoral transformation. The schemes include Wage Credit amounting to $600 million, of which 70 per cent will be for SMEs; extension of Special Employment Credit amounting to $300 million that will benefit 370,000 workers, and the continuation of the SME Working Capital Loan scheme for the next two years.

In terms of capacity building and skills upgrading, the Government has committed up to $600 million in capital for a new International Partnership Fund with Global Innovation Alliance for Singaporeans to gain overseas experiences, build networks and collaborate with their counterparts.

It is reassuring to see consistent effort to address income disparity despite it having become more difficult to find the financial resources to do so, given lower economic growth. Last year, the Gini Coefficient – a measure of income inequality – fell to 0.402 from 0.458 due to the redistributive effect of government transfers. Income disparity in Singapore has fallen to a decade low, partly due to slower growth in incomes at the top. But what is worth noting is that generous funds for the Workfare Income Supplement (WIS) scheme, heavy subsidies for public housing, especially for households in one- and two-room flats, and subsidised childcare for lower-income households can be sustained only if the economy continues to grow. And higher wages can be justified only by higher worker productivity and production management efficiency.

Mr Heng followed tradition in emphasising the need to manage Singapore's precious resources prudently. He also said "growing our economy is the first and foremost important step to increasing our revenues sustainably", and such revenue is critical to implementing the CFE strategies.

Despite the uncertain outlook, ministries' expenditures are 5.2 per cent higher than in the financial year of 2016 – up an estimated $3.7 billion. Together with higher infrastructure spending to expand the mass rapid transit system and construct Changi Airport's Terminal 5, it means that the overall budget surplus in the financial year of 2017 is estimated to be $1.9 billion or 0.4 per cent of GDP – much smaller than the $5.2 billion or 1.3 per cent of the GDP in the previous financial year.

Budget 2017 does provide strong financial resources amounting to $2.4 billion over the next four years to implement the seven broad, mutually reinforcing strategies of the CFE Report, which, unlike the reports of previous review committees, is best viewed as a "work in progress".

It is unrealistic to expect the seven strategies of the CFE to depart radically from past strategies unless one is of the view that the direction of the past was wrong.

It is also unwise to expect the CFE, which sat for just 12 months, to come up with detailed policy recommendations without evidence-based assessments of public policies – especially given the recent fluid state of globalisation, potential disruptive change brought about by technology, regional infrastructure developments and ongoing geopolitical realignment.

For those who hope to see more specific policy recommendations, perhaps under CFE version 2.0, going forward, we can expect ministries and statutory boards to "review, formulate and implement" detailed policies to deepen the skills of Singaporeans, increase internationalisation of local companies and identify clusters for creating new sources of growth for the economy, as some older clusters may have matured. Efforts to further narrow income disparity as measured by the Gini Coefficient will remain high on the agenda.

Taken together, this year's Budget statement and the CFE Vision Statement are significant as the former lends financial support to enable the latter's vision of a government that is "coordinated, inclusive and responsive", three words used in the CFE report executive summary.

The Government has clearly recognised the danger of failing to coordinate policies and has, since 2011, made changes in how policies are to be funded. These include the funding of public housing, healthcare, transport and education in ways that reflect continuity and consistency.

The CFE has also declared, albeit cautiously, that collective efforts by all stakeholders will allow the Singaporean economy to grow by 2 to 3 per cent per year on average over the next 10 years. That is clearly lower than the more ambitious 3 to 5 per cent growth per year on average, which was articulated by the 2010 Economic Strategies Committee.

Yet, even at the lower GDP growth target range, the Singapore economy must expand by 25 per cent in 10 years from now. That would require the Government to be responsive when the external environment turns favourable and nimble enough to seize opportunities to grow well above the upper range of the CFE growth target to make up for GDP growth falling below the lower end of the target range during global downturns.

QUESTIONS ON THE FUTURE

After 50 years of economic growth that far exceeded expectations, Singapore now has to aim higher to reap dividends for the future and that takes courage. The Government has long employed a strategy of picking and hosting winners in manufacturing clusters such as electronics, oil refinery, chemical engineering, and pharmaceutical and life sciences. These clusters are now integral components of the manufacturing sector, with spillover effects on service sectors.

Mr Philip Yeo, former chairman of the Economic Development Board, has a 5-5-5 rule on how "every industry struggles through its first five years, grows and stabilises in the next five and then matures in the last five". Some of the future clusters envisaged by him for Singapore could well include robotics, artificial intelligence, digital science, big data centres and driverless transport.

As we look a decade ahead, what we need to forge is a consensus on the broad direction for the economy and the strategies to bring that about, and secure buy-in from a majority of stakeholders. For that to happen, unpopular issues need to be tackled and conventional wisdom challenged. We may well need to revisit Singapore's growth potential, reshape its economic structure, rethink the sustainability of current welfare policies and review its openness to the foreign workforce with a clear-eyed assessment of the optimal population mix over the longer term.

Here are the questions that we believe need to be grappled with as we contemplate the future of the Singapore economy:

- Should low and slow growth be the new normal?
- Should Singapore go the way of many highly developed economies by gravitating towards a service-oriented economy or should it try to maintain a significant share of manufacturing activities?
- Going forward, does society want a welfare system or do Singaporeans prefer the current co-payment system supplemented by government-driven efforts to mitigate income disparity?
- What are the principles guiding policy on foreign manpower, a question that has a bearing on the official retirement age over the longer term?
- What is the steady-state optimal population size for Singapore, in terms of being physically and economically sustainable with proper planning and policy coordination? How different is that from what the population at large would find socially and politically acceptable?

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