Productivity, inequality key issues in Singapore's competitiveness

Economists say equipping SMEs to be ready for new technologies will be key in dealing with these challenges

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The Business Times, 17 November 2017

A RAPID slowdown in labour productivity growth, as well as rising inequality among businesses due to the rise in new technologies, were identified by economists as key challenges that will affect Singapore's long-term competitiveness.

Gearing small- and medium-sized enterprises (SMEs) to be ready for these disruptive forces will be key in dealing with these twin issues of inequality and productivity, they added.

These topics were discussed on Wednesday by attendees of the 28th Singapore Economic Roundtable, a high-powered dialogue group which focuses on Singapore's macroeconomic outlook and its implications on policy.

The major determinant for Singapore's economy in the long term is productivity growth, said Rajiv Biswas, senior director and chief economist of APAC, IHS Markit, who spoke at the session.

"We have seen massive slowdown in productivity growth rates in the last decade," he said. This reflected the changing structure of the economy, where the manufacturing share of gross domestic product (GDP) has been on a downtrend, while the services sector has grown at a higher rate.

As productivity growth in the services sector has been rising at a more moderate pace than in manufacturing, overall labour productivity growth has likewise been affected.

"As the size of services increases, the ability of the economy to boost productivity growth rates is going to be very important," said Mr Biswas.

This is because in the medium-to-long term future, slower GDP growth is expected for Singapore's maturing economy.

"Per capita income has converged with advanced economies, which means that competition with low-cost producers has intensified," he said. This would lead to the erosion of Singapore's traditional competitive edge in manufacturing, and weigh on export performance.

Average annual economic growth is forecast to slow from 6.7 per cent in 1980-2014, to 2.7 per cent in 2019-2023, according to Mr Biswas.

It is projected to slow even further after 2025, reaching only 2 per cent growth in the early 2040s, as a result of the declining size of the labour force as Singapore's population ages.

To boost long-term GDP growth, policies to boost productivity growth are critical, said Mr Biswas.

Some strategies highlighted in the Committee on the Future Economy report released earlier this year include strengthening of human capital, boosting innovation and building state-of-the-art digital infrastructure. It is the latter that Mr Biswas zoomed in on.

"In Singapore, as well as other countries, what's important is how to bring SMEs into this world of new technology … Large companies can easily do that, but trying to get SMEs to become state-of-the-art in digital strategy is going to be one of the key determinants of how successful Singapore can be in achieving these higher productivity levels," he said.

Another speaker at the roundtable, Dr Santitarn Sathirathai, head of emerging Asia economics, Credit Suisse, pointed out that productivity and inequality issues "overlap a lot".

The productivity problem that is being observed globally is a product of inequality, he said. Smaller firms - such as SMEs - fail to adopt new technologies and play catch-up with technology leaders.

On further clarification after the discussion, he told The Business Times: "For various reasons, the gains from tech advancement have not been distributed effectively to businesses in the broader economy."

As a result, these smaller firms which represent the majority drag down the average productivity in the economy, even though there are innovative companies out there, he added.

Solving productivity problems therefore demands one to tackle the spread of tech adoption to allow all firms to catch up, Dr Santitarn said.

In his presentation, he also spoke in the context of China's Belt and Road Initiative (BRI), which has led to a surge in investment into the Asean region. However, not all sectors within Singapore are well-positioned to benefit.

For example, traditional sectors such as manufacturing, construction, transport and wholesale trade will not reap direct gains from BRI, compared to sectors such as finance, legal & accounting, engineering and accommodation, he said.

This could result in further inequality among businesses, said Dr Santitarn.

As more Chinese tech giants venture into Asean, or what he dubs the "digital silk road", a lot of traditional players could get disrupted. He added that it is not just brick-and-mortar retailers, but potentially those in the financial sector, with the emergence of fintech and e-payments.

While he does see the benefits of the BRI for the Singapore economy, the question for policymakers would be how Singapore can support those who are left behind.

And this is not just in terms of reskilling individual workers and bringing them back to market, but equipping SMEs to be future-ready as well, he said.