'Missing' points in Singapore's productivity policy identified

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(SINGAPORE) While Singapore's move towards a productivity-driven restructuring of its economy is a positive one, the country still needs to address certain areas. It lacks innovation and is too focused on diversification. It also does not have sufficient numbers of highly skilled workers to support high-end manufacturing.

These points were raised by an expert panel of economists in a discussion on Singapore's restructuring efforts.

'The missing half of the (productivity) policy is that if you are going to restrict foreign labour, then you will need to grow your domestic labour pool,' said former Government of Singapore Investment Corporation chief economist Yeoh Lam Keong. He was one of the panellists at a World Bank book launch organised by the Institute of Policy Studies (IPS) yesterday.

Mr Yeoh believes the European countries have successfully built up a domestic pool of labour capable of supporting their domestic industries and he highlighted Germany's example. 'They (Germany) used to be the largest exporters until China came along and in terms of high-value goods, they still are on top and half of their exports come from their SMEs,' he said.

Mr Yeoh, who is currently the vice-president of the Economic Society of Singapore, added that Germany has been able to maintain its strong manufacturing and SME contribution to economic growth due to an emphasis on skills training and a conducive ecosystem.

Echoing these calls for greater emphasis on building a workforce in Singapore to support its industrial policy was Shahid Yusuf, chief economist of The Growth Dialogue at George Washington University.

Speaking to BT afterwards, he explained that Singapore will need to do more to build a pool of technical talent to support the high-value manufacturing activity that its economy is built on.

'Although Singapore is moving towards services, manufacturing is still key and therefore Singapore needs more PhDs and other technically skilled talent to support high-end manufacturing activity such as research and development. This pool may take time to build, even as much as 10 years, but the pipeline must begin now.'

The book launched yesterday was co-authored by Mr Yusuf and Kaoru Nabeshima, director of Technological Innovation and Economic Growth Studies Group at the Institute of Developing Economies - Japan External Trade Organization, both of whom are former World Bank staff.

Titled Some Small Countries Do It Better, the publication is a comparative study of three small economies - Singapore, Finland and Ireland - and their similar approaches in building human capital to attract technologically intensive foreign direct investment.

While agreeing that the book covered much of what Singapore had done right in fostering learning and innovation, panellist Vikram Khanna said it did not focus on what still needs to be done. For example, he pointed out, while Singapore companies and agencies, such as A-Star, have many patents to their name, these have yet to be translated into revenue streams.

Mr Khanna, who is associate editor of The Business Times, added that even when Singapore companies launched innovative products, they have not been able to commercialise them with great success. For example, he noted that Creative Technology's first MP3 player pre-dated Apple Computer's first iPod, but the former failed to gain traction in the marketplace because of weaknesses in design, marketing and branding. Similarly, although the USB thumbdrive was invented by a Singapore firm, Trek 2000, the company failed to earn significant revenues from its invention.

Mr Khanna also explained that private venture capitalists do not invest much in Singapore, which still has much to learn from places such as Silicon Valley in terms of incubation, industry-university links and mentoring.

Mr Yusuf agreed with the need for greater innovation in Singapore's economy. He suggested that the government should lessen its focus on trying to diversify the economy and move up the value chain of activities too rapidly. He said this often leads to higher costs for businesses and exposes the lack of technical depth in the workforce.

All the panellists agreed that the strengths behind Singapore's economic success lay in its rule of law and good governance. Ambassador-at-Large and special adviser to IPS Tommy Koh, who moderated the panel, noted that even countries in Africa, such as Rwanda, have recognised these strengths and are trying to emulate them, a point supported by panellist Yaw Ansu, chief economist at the Africa Center for Economic Transformation.

'Rwanda is very similar to Singapore in that it has a disciplined and committed leadership and Ethiopia is another country that does so,' Mr Ansu said.

Bert Hofman, country director and chief economist at the World Bank Singapore office, who was also on the panel, added that in hindsight, infrastructure development has been instrumental to Singapore's economic success even though it was previously criticised.

'Singapore has changed a lot from the days of 20 years ago when (Nobel laureate economist) Paul Krugman criticised the Tiger economies, including Singapore, for investing only in factor inputs and not having productivity growth. Although Singapore invested more in physical infrastructure, which didn't show as much in terms of productivity, the return on investment now has been much more.'

There was general agreement though among the panellists that Singapore's productivity push now will yield attractive results for the economy in years to come.

According to Mr Yeoh, while Singapore can be commended for being the only developed economy to achieve such high rates of growth over the years, this was built on a labour-intensive growth model and thus the push for productivity would herald a new era of growth.