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Panel II: Singapore and International Economics

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Davos Divide

Most of you would have read about dark clouds surrounding the global economy – US-China strategic competition; China's economy; Workers being disrupted by globalisation and technology. I don't think I can add to the analysis out there.

One encounter in Davos stands out. At a breakfast hosted by a large European bank, the CEO started by taking a vote. "Who thinks Globalisation and Technology are good things for society?" 85% of the audience voted "Yes". Thereafter, speaker after speaker spoke optimistically about the world, for example, on the potential of AI to transform lives.

Then a Prime Minister of a small country spoke. He said "Here we in Davos overwhelmingly support free trade and technology, because we feel the benefits. But back home, my voters do not. If you ask them the same question, more than half will say No."

How refreshing for a politician to be so frank.

DPM Tharman wrote the same in his FB post.

"But the biggest difficulties lie within nations themselves. People are now deeply divided in the advanced nations that led the world for decades (Japan is an exception).

Until these domestic divisions and the loss of trust in political leaders is repaired, there is little hope of fixing the divisions in the international order. A spirit of common interests globally, and of wanting to resolve problems in a cooperative way, will not return until there is a sense of shared interests among people at home, in their own societies.

Politicians of all stripes, and businesses too, need the humility to understand why ordinary working people have voted this way. There was more humility in Davos this year than in the past.”

That encapsulates the dilemma that all countries, big and small, are facing today, including Singapore.

Change, Constant and Courage

Why the divide? It is because the old paradigm has changed. The liberal world order of free trade and open markets is being pulled back. In business, the internet and digitalisation of operations has led to upheavals. For example, EDB used to chase manufacturers to invest because when “one controls supply, one controls demand”. Ford used to say “You can have a car in any colour, so long as it is in black.” It shows the power of the supplier. But with digitalisation, the tables have turned. Now, one controls the demand first, one controls supply. We see this in Uber, Facebook, Netflix. For workers, it used to be working for one company the whole of your life, after studies. Now, you have to be prepared to constantly learn to upgrade, and to change jobs, and be adaptable.

Janadas Devan, the Director of IPS, started today by referencing Rajaratnam’s “Global City” speech in 1972. It was remarkably prescient, and the vision, remarkably enduring. The early years leading up to 1972 were tumultuous, and the paradigm was upended. 1959, Singapore was dealing with self-government having freed ourselves from British rule, and had to deal with the Communist United Front. 1963, we merged with Malaysia, hoping to sell to the common market, but racial riots and tensions reared their heads, and by 1965, we became independent. In 1968, the British announced their withdrawal from Singapore, resulting in a drop of 20% of GDP in Singapore. Yet, guided by the Global City vision and our leaders, by 1972, we overcame our challenges and grew, 10–12% on average. Foreign investments poured in. We created many jobs, trained our people for them. Unemployment declined rapidly, and living standards rose, such that in one generation, we leapfrogged from Third World to First. The best essay on how we achieved this was written by our economic architect himself, Dr Goh Keng Swee. “A Socialist Economy that works” described Singapore’s unique economic model – blending together laissez-faire economics, and state intervention, with a practical, results-oriented bent.

To refer to past speeches to find the success formula today would be foolhardy. But what must remain constant is our cast of mind, the same which our leaders in the past displayed. They were humble, always seeking to learn from the best. They saw the world for what it is, not what it should have been. They bravely stood for what they believed in and were determined to pull everyone together and point towards the vision. In the words of Dr Goh:

“Singapore political leaders had often to assume the role of Moses when he led the children of Israel through the wilderness in search of the Promised Land. They had to exhort the faithful, encourage the faint hearted and censure the ungodly.”

It was this cast of mind that saw us through difficult periods in the last 50 years, and enabled us to go against conventional wisdom and succeed. For example in 1960s, when everyone was preaching import substitution for developing countries, we took Dr Albert Winsemius' advice and chased export-oriented industries. A few years after we achieved self-government from the British and freed ourselves from colonialism, we chased MNCs to invest in Singapore to build our capabilities and train our workers. In 1984, when we encountered our first recession, we started from a blank sheet – Reduced our labour costs; Improved our labour market's flexibility, liberalised ICT and Finance sector, and created a second engine of growth. In all circumstances, we were unafraid to swallow bitter medicine, and the results proved us right.

Cautiously Confident

It is this cast of mind that we in this generation must seek to emulate. We are now at a turning point again. Dark clouds are hovering. What can Singapore do?

I am cautiously confident for three reasons.

One, we are differentiated. We are differentiated from the world. While others are in slower regions, Singapore is in the heart of ASEAN, which will be among the fastest growing regions in the world. The world is waking up to ASEAN. At Davos, the Indonesian night was packed to standing room only, and it was not just because of the food.

We are also differentiated within ASEAN. Singapore can play a role because we are urban and well connected; a place where talent wants to come; our workforce is talented, we have a strong reputation for trust. That is why many companies site their regional HQs in Singapore, even while they have substantial operations in other ASEAN countries.

Two, we have a head start in transforming ourselves. At Davos, one of the hot topics was the impact of AI and Automation on workers. Just last week, Brookings Institute released a sobering report, which concluded that small US cities, rural communities and Rust Belt states were most at risk. The prescription of the report was to embrace growth and technology, promote a constant learning mindset, facilitate smoother adjustment, reduce hardships for workers who are struggling, mitigate harsh local impacts.

These prescriptions are remarkably similar to DPM Tharman's ERC and Minister Heng's Committee on the Future Economy (CFE) reports. That is why today, we have SkillsFuture Singapore and Workforce Singapore, institutions that have workers at the heart of their Mission. With the Industry Transformation Maps, our businesses and unions have been transforming themselves. We had identified the problem almost 8 years ago and have been working on them. That is why Klaus Schwab, the founder of the World Economic Forum, suggested to WEF Participants to "Look at Singapore. They are doing all these to prepare their people." I do not think we have cracked the code, but we have a head start and the wherewithal to make the change.

Three, and most importantly, we are holding together as a society. Contrast that to the news around the world, on Brexit, on politics drifting to the extremes. The world is rife with countries that are internally divided. To businesses, the premium for stability and trust have increased significantly. There will be an even greater premium because with technology, capital and talent are becoming more important. Being small now gives us an advantage, because we are nimble, and we can effectively implement structures and systems that will hold us together - whether it is strengthening our safety nets, workfare, investing in education, building our communities in our HDB towns.

Singapore's Strategy

But we have a lot more work ahead. Others can easily catch up and we will soon lose our head start. Take for example financial payments and e-commerce. In just 8 years, China has leapfrogged with Alibaba and WeChat. Indonesia startups are scaling up at blistering speeds. Malaysia released a strategy for Advanced Manufacturing, which is broadly similar to ours. The UK Government's Industrial Policy White Paper talks about "Sector Deals", which bring businesses, workers and government together, somewhat similar to our Industry Transformation Maps. I mentioned it to my UK counterpart and he said he studied our CFE report. Other countries have far smarter people, and can come up with far more comprehensive plans than we can. The difference is never about the plans. It is execution.

So, let me share 5 priority areas of our Economic Strategy that we want to execute.

First, ASEAN. We have to get more plugged in, not just physically but culturally. As a people, we must know ASEAN better because that's how we're going to make our living, by facilitating the connections with ASEAN and the world. Our young people don't know ASEAN well. On a business trip to KL, I was shocked to find out that one of my young colleagues have not been to Malaysia before! Our universities have many overseas immersion programmes, but the first choice of many students is always US or Europe. ASEAN hardly ranks among their choices. Ngee Ann Polytechnic has a good programme where they send students to intern at companies in ASEAN. EDB works with ASEAN companies to take in Singaporean graduates as interns. These students come back changed, because their eyes are opened to the opportunities in ASEAN. We have to do more, because that's how we will make our living, by connecting the world to ASEAN.

Second, Digital. Digital plays to our strengths, because we are highly connected and our workers are skilled. Digitalisation has caused upheaval to many industries – rendering some industries obsolete, and rendering what was previously unviable industries viable. For example, it is now possible to manufacture cars and build an ecosystem for autonomous vehicles in Singapore. Previously, agriculture required a lot of land. Now, with the use of AI, sensors, and drawing from the example of Netherlands, intensive farming is possible in Singapore. We need to help our companies to take advantage of the digital revolution, to be able to sell their products and services overseas.

Third, Innovation. Our economy must shift from a knowledge-driven to an innovation-led one. To capture the most value, we have to create new products, new services out

of Singapore. That will be through design, through engineering, and through understanding customers better.

Fourth, Linkages. We need a thick economy and strong clusters comprising MNCs, SMEs, and Startups. In 1972, Dr Goh explained our industrial policy in an essay.

“We want our industries to be so structured that components strengthen each other, and we maximise our gains from external economies of scale... From supply of components. To effective training programmes then R&D. Then in the Long term, Singaporeans will not only man the technical management positions, but also contribute to product development and innovation.” “It will not be useful if we have one petrochemical plant here, one watch factory there. All disparate serving their global HQs. They have to be linked.”

Strong linkages are not just about the supply chain or R&D, but also talent. MNCs provide good training grounds for workers to learn how to build organisational capabilities and manage complex systems. If there is a healthy circulation of workers between MNCs and SMEs and startups, it would give our economy a boost and we will have a better chance of transforming our SMEs into MNCs. and giants.

Fifth, Inclusion. To make all these things work, we must continue to hold together. Inclusion must be a foremost consideration in our economic strategy. We cannot just deal with inclusion ex-poste but it has to be factored in ex-ante in our policy formulation. For example, it is not just the number of jobs that EDB brings in, but we also need to consider the type of jobs we bring in and how it can help inclusion.

A young person asked, by what measures will we know if we have succeeded in 30 years? I replied, apart from GDP, which will still be important, we have to measure GNI, which gives an indication of whether we succeeded in creating opportunities for our Singaporeans in ASEAN and the rest of the world. We also have to measure inclusion and inequality. Finally, we have to measure innovation, through metrics of intellectual property, R&D spending and number of startups.

Conclusion

So what is my answer to whether globalisation and technology has been good for society?

I know of a single mum that runs a cleaning business for offices. She can't speak English, but she has a network of office ladies who she can assign to clean offices. The business was earning about \$100k a year - Not big, but she can make do. She has one son who she put through school, got a scholarship and went to Stanford to study Computer Science.

In Stanford, he discovered Search Engine Optimisation (SEO) and decided to optimise search rankings for his mother's business. Before long, his mum's business grew to \$2mil a year! He wanted to test the potential overseas. So he did SEO in that country,

and got a phone line in that country to gauge the response. The business rose to #1 in the search rankings and the phone line was flooded with calls, even though there were technically no operations in that country.

So globalisation and technology has the potential to be good for society! It has democratised tools and expanded markets, such that anyone can start and grow a business successfully.

But is it truly good? The tale of the mum and the son is also a cautionary tale. Imagine the son did not go to Stanford. Then the business could have languished.

It illustrates the divide between the haves and the have-nots. There is a tremendously exciting world out there full of opportunities, but you need the knowledge, and the skills to exploit it.

How do we bring the world of the cleaning mum, and the world of the Stanford son together more intentionally and deliberately? Part of it must be through education, so that each generation has many more opportunities and access. But it is not enough. There must be active intervention on all our parts, Governments, businesses and unions, to pull people together, to share knowledge together, to create opportunities for each other.

So I replied that yes, I am optimistic about the potential of globalisation and technology, but I am pessimistic about whether we can bridge the divide.

But in Singapore, we must and can buck the trend.