

The next 50 years of Singapore's economy: Speech by Ho Kwon Ping

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Ho Kwon Ping, the first Institute of Policy Studies S R Nathan Fellow for the Study of Singapore, delivered his second lecture last night. He discussed how the city state's economic strategy, based on the three Ls of location, land and labour, needs to change. Here is an excerpt from his speech.

The first L is Location. How do we maintain our competitiveness as Singapore's strategic location may decline?

I believe that the answer is in creating several critical ecosystems of business activity, as we are now doing. To create critical ecosystems which are so elaborately interrelated that they cannot be reconstructed by competitors; and are the result of continual incremental improvements over decades; and can stand their own in global competitiveness regardless of geography.

Let me highlight a few examples of such ecosystems.

Aviation is one. Changi Airport and Singapore Airlines may decline in importance. But if we add to our early start as an aviation hub, global capability in aviation leasing, financing and insurance; if we have the top engine repair and maintenance facilities here manned by very skilled technicians; if we attract the most sophisticated avionics and small precision components manufacturers here; if we create a support environment of local small and medium-sized enterprises which can service the outsourced work of the MNCs that are here; and if we add to all that, cutting- edge research in our universities on the digital technologies related to aviation.

If we do all that, I think there will be at most one or two other global competitors to Singapore in this domain.

The same is true in the life sciences and for financial services.

This strategy that we have embarked on and are incrementally growing is good for another 50 years, but the purposeful, deliberate selection of specific industries as the winners of tomorrow is itself pretty risky. It requires a judicious balance between planning and market forces, and close collaboration between policymakers and industry. Another risk is the very expensive link between applied research and product development. Research funding cannot always have immediate commercial applications and yet funding cannot be open-ended; finding the right balance will again require clear, far-sighted but accurate judgment.

Finally, even if Singapore's geographic location becomes less strategic in a global context, the eventual creation of a genuine Asean Economic Community will finally create opportunities for our SMEs.

The second L: Land. I had identified two challenges: viability of manufacturing in the face of land shortages, and housing affordability.

On the first challenge, there is no evidence that manufacturing of high value, sophisticated products requires more space or labour than services. In fact, it may even be the other way round - the output per square metre of space or worker is probably multiple times higher in a life-sciences production plant than in a food court. The choice really is a false dichotomy if one chooses between services and manufacturing; it is between low and high value-added activities of any kind.

In the new economy with its customised, on-demand production such as 3D printing of as-needed components, there will almost be no distinction between services and manufacturing. Knowledge creation leading to product creation will be a seamless process: medical research leading to drug manufacturing on demand; or design and then production of nanotechnology components - these are just a few examples.

The second challenge of housing affordability is more intractable and perhaps requires a more radical approach. First, property prices should perhaps be more actively managed so that they match the growth rate of lifetime income or about 4-5 per cent per year. Second, in terms of pricing, the tail should not wag the dog - public housing prices should perhaps determine private housing prices, not the other way round.

Both of these suggestions point to one possible conclusion: that of a national housing price regulator. We already have price regulation through HDB unilaterally setting the price of entry-level flats.

One objective of a national housing price regulator would be to integrate and influence the pricing of the three housing markets - HDB entry level, HDB resale, and private housing, so that the whole market is not led by private housing, which in turn is led by foreign demand. Another goal would be to have prices strike a balance between housing as a utility - the goal of young, first-time owners; and housing as a wealth asset, a store of value - the goal of older owners or investors.

It may be timely for HDB to consider a gradual and phased exit over the next decades, from its role as housing developer in order to focus on a new dual role: first, as master land developer for entire new towns or districts, and second, as regulator of housing prices in these areas.

Its most important and sensitive function could be the setting of residential product sale-price caps for each land parcel, which in turn would then be auctioned off to private developers. The competition by private developers on detailed design, quality, features and so forth would ensure that market forces dictate, but within residential price ranges set by HDB. Not price ranges for land, but the price ranges for the final product, unit.

If we did that, all housing developments will then in fact be private, with a single master land developer selling parcels to private developers. There would be no more private versus public divide.

HDB estates will also be real towns, with housing of different price ranges so as to erode the social distinction that we still have and should not have in the next 50 years.

Finally, the third L: Labour.

One reason for Singapore's high income inequality is the high wage differential between different job vocations. Among all the developed or OECD (Organisation for Economic Cooperation and Development) economies, Singapore has the highest income differential between a doctor or lawyer on one hand, and a construction worker or retail assistant, on the other.

There are two reasons for this.

First, a large workforce of low-cost, low-skill foreign workers depresses the wages of everyone in that wage band, regardless of nationality. Second, our education system creates a large differential in starting salaries between the technical versus university graduates. There are two possible ways to address these causes of our problems.

First, we can perhaps devise a more innovative immigration programme where foreign workers are seen less as a necessary evil but more as one element, and a positive one, in an overall population strategy which does not distinguish so much between foreigner and Singaporean, but recognises their mutual dependency. Instead of just drastically curtailing their influx, the focus could be on finding ways to drastically increase their wages, skills and productivity. And very importantly, to provide economic incentives to create desired outcomes.

Current immigration policy with its punitive foreign worker levy may be simply counterproductive. It raises the cost of employing them but does not reduce the demand, and furthermore attracts lower-skilled workers because the better-skilled prefer to go to countries where the take-home pay is higher.

The levy could instead be converted into each worker's deferred savings account - similar to a CPF - to be withdrawn upon his permanent repatriation so as to ensure good behaviour whilst in Singapore. Immediately and without an increase in cost to employers, the quality of foreign workers will go up since the higher-skilled will be attracted here. The conversion of levies into a CPF look-alike for foreign workers is also the most effective way to ensure voluntary repatriation after the long-term residency has expired.

We can sieve through this pool to find a pool of talent and you can even find a small minority who are self-motivated to attain measurably higher skills through training programmes and employer certification, and we reward them by longer-stay residency permits.

Those who aspire even further upwards to change their careers or become entrepreneurs, such as domestic helpers becoming nurses, or construction foremen becoming self-employed builders, can perhaps even find a pathway towards permanent residency and for some, eventual citizenship.

Second, perhaps education pathways can be re-designed to help reduce income inequality. Although much admired for its rigour, Singapore's rigid, linear pathways reflect the university bias of the Anglo-Saxon model. The starting salary of a Singapore university graduate is about

30-35 per cent higher than that of a polytechnic graduate, whilst in Europe the gap is only about 10-15 per cent. The gap is much bigger for an ITE graduate.

We can amend the technical school - meaning polytechnic - educational pathway so that their students graduate at the same age as university graduates, and have starting salaries closer to graduates.

This can be done with a longer industry attachment and genuine apprenticeship programmes which provide much deeper (and equitably paid) work experience and job knowledge. Industry involvement in apprenticeship and curriculum development is far higher in Europe than here.

Second, we can increase the intersecting pathways by which early entrants into vocational training can cross back into polytechnic or university streams. Today, the rarity of an ITE graduate making it to university justifies a news headline; this should become normal in future. For a very credential-based society, which characterises East Asian cultures, adding many more opportunities to attain credentials later in life through short, vocationally or professionally oriented courses, will also certainly help.

Our vocational and technical schools are recognised as best of class around the world. But our graduates do not receive sufficient status, which is reflected in their salaries.

Vocational guilds in Europe generate artisanal pride in and status for their members, by providing professional certification and self-regulation. In Singapore, however, this legally recognised authority to certify and regulate your own people is only reserved for the traditionally very elite professions such as law and medicine.

And my understanding anecdotally is that the power to regulate and certify their own people has been resisted by industry associations because the companies don't want them to be certified as professionals because they can practise on their own. I think the Government should relook this issue.

'Soft' suggestions

Finally, I would like to make two "soft" suggestions which would not normally be associated with "hard" economics.

But just as we talk about corporate culture, social culture or political culture, there is also an economic culture which shapes how people behave in an economy.

My first suggestion is that Singapore can take the lead, again over the next 50 years, in defining new and more holistic indices for economic progress, which take into account factors such as human well-being, environmental sustainability, and socio-cultural development. There is a need to counter the complacency of affluence with a compelling vision for our young to aspire towards, measured by more than per capita GDP or billionaires per square mile. In other words, even if others don't want to measure against their yardstick and our own circumstances.

My final suggestion is that inclusion, diversity and freedom of expression need to be proactively cultivated if we want to attract the best global talent for innovation in knowledge-based, creative industries, from artificial intelligence to biomechanics.

The most innovative people are generally very individualistic and even eccentric, and like to live in environments where diversity rather than conformity is the daily ethos.

The point here is that whilst tourists may come to Singapore for our mega-attractions, whether car races, casinos, or massive plant conservatories, the people we really want - indeed, need - to attract to Singapore to spearhead entrepreneurial innovation, come for different reasons. Our clean, safe, physical environment is of course important. But beyond that, a culture of freedom, inclusion and diversity is very important - perhaps even more than tax incentives.