



Singapore's Industries of Tomorrow

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In his recent work, *The Great Stagnation*, Tyler Cowen, an American economist and co-author of the popular economics blog “Marginal Revolution”, writes about the “low-hanging fruit” of economic growth: undeveloped land, technological breakthroughs and a population waiting to be educated. He claims that none of these low-hanging fruit remain to be plucked for developed countries, which explains their slower growth in the last few decades. While Singapore is still growing at a fast pace – a record 14.5% in 2010 – it seems to be at a similar crossroads.

In the past, as we moved from labour-intensive industries to technology-intensive and value-added industries to a knowledge-based economy, the road ahead was clear. At the recent 15th Singapore Economic Roundtable, however, it was pointed out that our “catch-up” phase is now over. Being much closer to the frontier of technology, and thus producing for markets where demand is unknown, the way forward has become increasingly unclear. Moving into a global economic environment that threatens Singapore’s historical role as a regional hub for manufacturing operations, where should our economy go from here?

Earlier this year, former government economic planner Tan Jee Say wrote a 45-page paper titled “Creating Jobs and Enterprise in a New Singapore Economy – Ideas for Change.”¹ One of Mr Tan’s key criticisms of the Singapore economy is the overdependence on manufacturing, which contributed to a significant proportion of economic volatility in the last decade. He claims that having manufacturing as a key pillar of our economy is unsustainable, as land and labour are in short supply. Furthermore, the continued emphasis on manufacturing encourages the huge inflow of largely unskilled foreign labour, and distorts the economy in the form of subsidies and tax holidays. In that light, Mr. Tan proposed a gradual inter-sectoral shift from manufacturing to services.

At the Singapore Economic Policy Forum in 2009, Nanyang Technological University (NTU) economist Professor Choy Keen Meng argued that the services sector “holds the key towards mitigating economic volatility in Singapore”, and hence Singapore’s future lies in services.² Prof Choy called upon the Singapore government to offer greater tax incentives to

¹ Tan Jee Say. “Creating Jobs and Enterprise in a New Singapore Economy – Ideas for Change”. http://theonlinecitizen.com/wp-content/uploads/2011/04/New_Economy_-_Jobs_and_enterprise_Singapore_15_Feb_11.pdf (Accessed 16 June 2011), pp. 7-10.

² Choy Keen Meng. “Singapore’s Growth Model: Too Much Volatility?” <http://www.ess.org.sg/Events/Files/2009/choy.sepf.ppt.pdf> (accessed 16 June 2011), p. 12.

large companies in the services sector, and encourage the development of the financial wealth management, tourism, tertiary education and medical treatment industries.

Singapore has taken full advantage of globalisation over the last few decades, and as transportation costs, transaction costs and trade barriers have gone down, transformed itself into a regional base for large multinational corporations (MNCs). Our success in attracting MNCs to Singapore has created many jobs for locals and foreigners alike, but these jobs can be easily taken away by the rapidly shifting competitive advantages of today's global market.

In a recent paper, Lori Kletzer, a prominent labour economist from the University of California, Santa Cruz, showed that job displacement is lower in services than in manufacturing, and reemployment rates are higher for displaced services workers than for displaced manufacturing workers. Furthermore, mean earnings losses are smaller from services than from manufacturing, and a larger share of displaced services workers experience no earnings loss (or a gain) as compared to manufacturing.³ Thus, a move from manufacturing to services will not only reduce the economic volatility in Singapore's growth, but also result in less volatility in the labour market.

However, Mr Tan's proposal is premised on Singapore having a comparative advantage in services. At the end of 2010, many economists expected the growth baton to pass from manufacturing to services in 2011, but that was largely due to a moderation in the growth momentum for manufacturing following its double-digit growth in 2010.⁴ It remains to be seen whether Singapore's future comparative advantage truly lies in services. Furthermore, manufacturing does not have to be reliant on low-skilled foreign labour, as Mr Tan implies. During the recent global recession, German chainsaw manufacturer Stihl retained their highly trained workers by offering them an employment guarantee until 2015, and even added specialists to its product development team.⁵ As a result, Stihl produces high quality products that command price tags of up to US\$2300, which shows that manufacturing can attract high skilled-workers and high wages.

In that light, Mr Tan's proposal for manufacturing firms to relocate outside Singapore or to shift into services seem to be giving up too easily on Singapore's potential for developing niche industries or sub-industries and pushing for a broad-based structural shift to services instead.⁶ On the other hand, Prof. Choy provides a more nuanced approach, as he calls upon economic policy makers to give up their long-held bias in favour of manufacturing.⁷ Singapore has traditionally focused on the manufacturing sector, but it may be time to rectify this over-emphasis on manufacturing if it comes at the expense of developing the services sector.

³ Lori Kletzer. "Globalization and Job Loss, from Manufacturing to Services," *Economic Perspectives*, Federal Reserve Bank of Chicago, Second Quarter 2005, pp. 38-46.

⁴ Julie Quek. "Services Sector Expected to Drive Singapore's GDP in 2011." Channel News Asia. <http://www.channelnewsasia.com/stories/singaporebusinessnews/view/1100700/1/.html> (Accessed 17 June 2011)

⁵ Michael Schuman. "How Germany Became the China of Europe." Time Magazine, March 7 2011.

⁶ Tan, pg. 26

⁷ Choy, pg. 18.

Moving beyond the debate on which sectors or industries we should focus on, it will be important to develop our own brands, whether in manufacturing or services. Singapore should not limit itself to contract manufacturing, but neither should it become a mere repository for business continuity and data security operations. A highly successful example of a Singapore brand is Banyan Tree Hotels & Resorts, which has combined European spa concepts with Asian practices – for instance, spa therapists wear Asian clothing as opposed to clinical uniforms, and go barefoot to show respect. Furthermore, one admirable trait is Banyan Tree's belief that environmentally sustainable and socially responsible tourism is compatible with profit making, and it extends financial assistance to environment conservation and community projects.⁸ As such, policy makers will have to strike a delicate balance between attracting MNCs and encouraging the development of our own local brands. At the same time, they should not be too eager to provide direct funding to Singapore-based enterprises, as that will not only place the financial burden of business risk-taking on taxpayers, but also stifle the dynamism of the private sector.

On a national level, Singapore should constantly highlight its true competitive advantage: a track record of political stability, a safe business environment that respects intellectual property, and a highly educated and skilled workforce suitable for high-end manufacturing or services. The recent tragedy in Japan displayed how vulnerable global supply chains were to unexpected disruptions, and showed MNCs the need to diversify their operations and operate multiple hubs in the region. Given Singapore's reputation as an off-shoring hub and unique position at the "East meets West" confluence, we are well placed to fill this niche and should not be shy in advertising that fact.

In conclusion, the way forward for Singapore's economy is uncertain, but we must move past the debate on which sectors or industries we should focus on. Instead, we should work on repositioning ourselves for future success: developing local brands in both manufacturing and services, and highlighting the value propositions that Singapore has to offer.

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The views expressed are the author's and do not represent those of the Institute.*

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⁸ Martin Roll. Banyan Tree – Branded Paradise from Asia.
<http://www.asianbrandstrategy.com/2009/06/banyan-tree-branded-paradise-from-asia.asp> (Accessed 27 June 2011)