How GIC deals will help S'pore

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THERE is a lesser-known reason why the Government is expanding its overseas investments through the Government of Singapore Investment Corporation (GIC).

With a shrinking workforce exacerbated by an ageing population, the Government's tax revenue — which makes up more than 80 per cent of its overall revenue from 2000 to 2006 — is headed for a sharp drop as public spending balloons.

Presenting his paper The Singapore Economy 2030 at the Institute of Policy Studies seminar on Friday, Dr Teh Kok Peng, president of GIC Special Investments, used official data to show how the makeup of the Republic's current account balance, broken down into trade, services and income balances, has been shifting the past years.

Notably, Singapore's income balance has gone into deficit — no thanks to the greater outflow of funds to foreign direct investors.

In the last decade, government revenue has declined from 20 per cent to 15 per cent of the gross domestic product, "arising from the cutting of taxes, fees and charges", said Dr Teh.

Besides having to dedicate more resources to healthcare, the Government is expected to spend more on defence as the military relies more heavily on technology to compensate for manpower constraints.

Citing how the Constitution was amended last year to allocate a greater portion of the net investment income of Singapore's reserves for spending, Dr Teh reiterated the need for the Government to grow an "external wing" to bring in income from abroad.

Said Dr Teh: "My guess is that in 2030, this is likely going to be an even more important source of government revenue."

For now, the GIC will continue to invest largely in rapidly-growing economies such as India and China. But the focus will shift to developing economies once financial markets in such countries "develop the size and the institutions to take in more investments".

But intensifying competition from other sovereign wealth funds would mean that "our returns on investments may not be as high as they have been", said Dr Teh.

Unlike most other countries, which tend to move heavily into the services sector as they become more developed, Singapore has continued to rely largely on its manufacturing industries, by restructuring its economy and moving into higher-end, niche production.

But Dr Teh added: "The question really is whether Singapore can continue to be unique or whether it is near the high noon of manufacturing?"

On a separate note, income disparity is expected to narrow as the supply of local and imported unskilled labour diminishes, according to Dr Teh. Currently, the supply of cheaper foreign labour has depressed the wages of Singapore's unskilled workers.

But such a trend would be shortlived as other countries raise the overall skill levels of their population.

And coupled with the Singapore Government's continued emphasis on education and training, the "relative scarcity" of unskilled workers would result in an increase in their real wages, said Dr Teh.