Summary

When Singapore separated from Malaysia in 1965, calling her prospects of survival in a rapidly industrialising and changing world would have been a gross understatement. Small, void of any natural resources, impoverished and susceptible to ethnic divisions that could have easily destabilised the country, Singapore would have been written off by most. Yet today, her economic success is unparalleled. People call Singapore the world's most successful society, and hail her quick yet immense economic growth. With a per capita income that was similar to Ghana at independence, Singapore has moved on to the forefront of the economic world. As South Korean economist, Ha Joon Chang put it, "To put it bluntly there is not one economic theory that can singlehandedly explain Singapore's success".

Yet the economic model that Singapore adopted and has served so well is starting to show its problems. A defining feature of the economic model was a fixation on economic growth, which was only to be expected given the circumstances that Singapore was thrust into. With the transition from third world to first world, however, that fixation became unfeasible, but was still carried on, causing problems such as income inequality and an overdependence on foreign labour. Furthermore, to ensure safe growth, the government was heavily involved in major industries in the nation. Once again, despite the changing landscape, the government's hand persists in these industries, which has become more harmful than beneficial now. Our solutions involve wage reforms that both curtail the rising income inequality as well as complement the current governmental policies of tightening immigration policies, as well as reducing the government's influence in some of the sectors they're heavily involved in, especially the Research and Development industry.

John F Kennedy once quipped, “A rising tide lifts all boats”; an allusion to the fact that should an economy grow, every participant in that economy is bound to gain. Singapore has taken that quote quite seriously, and over the past five decades, her economic model has gained significant recognition for its effectiveness in building one of the strongest economies in the world. Yet, while this model has served Singapore’s economy ever so well since our independence, cracks in the system are starting to appear. With growing concern over how our model is outdated and that our developed country’s needs today are incompatible with those in our developing past, there is greater need than ever for our economic model to adapt to our changing circumstances and challenges. One of the biggest limitations of our current economic model would be Singapore’s obsession with economic growth, as well as the emphasis on state-directed growth. In this essay, we will look into these limitations and challenges, as well as propose possible solutions to overcome them.

Obsession with GDP Growth

Since independence, the ruling party has stressed the priority of economic growth. Following the schism with Malaysia, the country faced a plethora of problems, ranging from high unemployment and poverty to illiteracy and poor living conditions. This emphasis was hinged on the assumption that the economic gains made would naturally trickle down to help social growth as well, which has subsequently proven to be a fair theory, given how far Singapore has developed within a generation since Independence, with all the aforementioned problems now effectively addressed.

Yet the emphasis has hardly shifted, with the same reasons still cited. As Devdas Krishnadas, a former policymaker, asserted, “We have to not take our eye off the fundamental fact that if the economy does well, we can do well socially”. While this rationale is understandable, it has engendered a few serious problems detrimental to Singapore’s growth as well.

One such issue is that of income inequality. This is, of course nothing unique to Singapore; it is something societies have struggled with for centuries. The Greek biographer, Plutarch, said as early as 100CE that “An imbalance between rich and poor is the oldest and most fatal ailment of all republics.” The commonly employed method of evaluating income inequality has been the GINI coefficient. Looking at its absolute value, income inequality is something that many developed countries experience. However, other governments, like Germany, do a better job at redistributing income and narrowing the income gap through taxes and transfers, as reflected by a fall in their GINI coefficient by more than twice as much as Singapore’s.

Another problem that has drawn the ire of the Singaporean public is the over-reliance on foreign labour. Singapore achieved full employment in 1970, and to prevent economic growth - pivotal to the nation’s survival - from stymying, the country began to relax immigration policies, seeing that labour was proving to be the biggest challenge to growth. Today, foreigners account for nearly a third of the total labour force, one of the highest apart from the Gulf nations. This has serious economic ramifications. The influx of cheaper foreign labour compensates the lack of actual growth in productivity. However, unlike bigger countries like her neighbours, or even her less populated past, Singapore cannot afford the space for such a large and growing population. Already, the government has received flak for its loose immigration policies that have led to the ubiquity of foreign workers in the country, as people push the blame for social problems towards them as well.

State-directed growth

Singapore's economic model - which is driven primarily by state-directed growth - is a controversial one that is highly critiqued by various economists. Due to the rapid nature of Singapore's growth in its formative years, it was necessary for the government to channel our limited resources to areas which were deemed to be more important, hence the emphasis on state-directed growth.

Like many other booming Asian economies such as Korea, Japan and Hong Kong, Singapore moved from an economy based on labour-intensive manufacturing to one was based on technological developments and value-added services. However, unlike her 'Asian Tigers' counterparts, the Singapore government has not relaxed its stranglehold on our economy, with many of its statutory boards that were set up post-independence - such as A*STAR and JTC - still exerting influence over the direction of Singapore's economic growth.

Government intervention is necessary to correct market failures, such as environmental protection. The government's rationale for its continued heavy involvement in our economy is to ensure the long-term sustainability of our economy. However, this is exactly what we are trading off when having a state-directed economic model. The government's influence in economic policies - both macro and microeconomic - prevents the development of a domestic private sector. The huge presence of government investment firms such as Temasek Holdings and GIC, which account for more than 17% of total capitalization of Singapore Exchange, creates artificial barriers to entry for private firms to enter these industries. With the significant funding provided to government-linked companies like SingTel and Singapore Airlines, it is difficult for new private firms to enter the market without suffering substantial losses.

This results in the local economy losing diversity and competition, and does not promote enterprise or entrepreneurship among its people. Government intervention tends to sacrifice future economic growth and development for economic stability in the short term. While this was extremely necessary in the post-independence years due to the state of Singapore's economy, our economy is stable and does not need to be so closely micro-managed by the government now. The largest firms in Singapore are partially or fully government owned, and this is in stark contrast to other developed economies like Japan, where private domestic firms form the bulk of their economy. In order to promote the boom of startups and local companies, the economy needs to move from a state-directed to a more laissez-faire economy.

Reforms to Singapore's economic outlook

The major challenges faced by our economy are intrinsically linked with Singapore's economic outlook, which prioritises economic growth. This position meant that the government sought to exploit all avenues for economic growth at the expense of other goals such as income inequality and, to some extent, the standard of living of the people. However, this economic outlook is unsustainable in the long run. As the government exploits more and more ways to achieve higher economic growth, the severity of its side-effects balloons over time. There needs to be a balance struck between short-term economic growth and long-term sustainability.

The government needs to relax its control over key areas of Singapore's economy. One start to this would be in the research and development industry whose proper development is vital for a country's sustained growth. The continued substitution of improvements in technology with increases in labour, mostly foreign, is not viable in the future. Currently, Singapore's R&D industry is heavily driven by A*STAR, a public sector agency that spearheads economic oriented research. The government places huge emphasis on innovation and research in Singapore, exemplified by the recent announcement of the S$19 billion allocated to R&D through RIE2020.

However, there is a need to shift away from public-driven R&D towards private-driven R&D. Research by David, Hall and Toole from UK suggests that public funds act as more of a substitute rather than a complement to private funds. This means that government funded R&D displaces private funded R&D, which can be detrimental for innovation in Singapore. The government often chooses to engage in R&D in areas where private firms tend to overlook due to the high risks involved, or in areas where the competitiveness or other market thresholds are too high but where a public interest is evident. While there are merits to government funded R&D, they hinder innovation in other areas that are more pivotal to the economy, and huge government intervention is often not necessary in R&D industry. By allowing private firms to undertake their own R&D, the innovation will be more specific to the various firms, and the profit-motive of firms helps to channel funding towards innovations that are more beneficial to the firms and society. The government can help to increase innovation and research by subsidising such projects, but should reduce the influence of government agencies in the R&D industry. This improvement in the state of innovation can increase productivity and generate the potential growth necessary for sustained long-term growth.

Incentivising Locals

As mentioned earlier, Singapore's dependence on foreign labour, especially in blue collar jobs such as the construction and service industries, has soared, which in turn has created a myriad of new problems. The menial jobs these foreign workers do are often those that Singaporeans have spurned, which makes merely restricting entry of foreigners an impractical solution. There unfortunately is a deeply embedded social stigma against such occupations, which has only served to exacerbate both the economic productivity challenges and the social problems that have arisen. This therefore only gives employers a convenient excuse to hire more low-skilled and cheaper foreign labour. The increase in foreign employment then goes on to discourage more Singaporeans from joining industries dominated by non-Singaporeans. As such, a vicious cycle is set up.

One part of the solution has to therefore involve attempting to mitigate this negative societal view towards such jobs. Re-educating the public can only go so far. The truth of the matter is that the low pay in such jobs has been the major deterrent to Singaporeans. Wage reforms to such jobs are pivotal in getting more Singaporeans to perform such jobs; Professor Tommy Koh once echoed a sentiment that "Singapore is a first world country with a third world wage structure". One such change could be a minimum wage. In a country where the government is heavily involved in several industries, the Ministry of Manpower has chosen to leave wages to the free market to decide, forming part of less than 10% of countries globally with no legislated minimum wage policy.

The fears associated with the minimum wage include unemployment and lack of productivity. In terms of the former, it is important to note that many of the jobs created go to foreigners. In 2015, only 0.3% of 31,800 jobs created went to locals or PRs. With tightening regulations on foreign influx, fewer jobs available would only be natural and in fact beneficial in ensuring there is no void created. As for the latter problem, the costs need to be evaluated relative to the hitherto implemented Progressive Wage Model, which rewards improvements in skills with increases in wages. What this means is that firms have good reason not to send their employees for skills upgrades. On the other hand, when forced to provide a certain fixed salary, they are encouraged to ensure they get their money's worth.

Granted, a blanket minimum wage or a model similar to other countries might not work in Singapore, and the option taken has to be complementary to measures already in place, but the adamant attitude towards it certainly needs to go in light of the merits that it offers. Higher basic wages would have the double effect of both reducing the income inequality as well as the need for foreign labour.

Ultimately what both these solutions would require for sustainable growth would be to take the foot off the pedal and trade off immediate economic growth. Since Independence everything else has been secondary to economic growth, and while the country has undoubtedly prospered, the expectations of a developed, first-world country are vastly different from those of a developing country. At this crossroad, Singapore has the option to either continue down this slippery slope, persisting in its emphasis on GDP figures while other social and economic problems are aggravated, or pause to re-evaluate her strategy, at the expense of a slowdown, and choose a path more tenable. It is imperative that Singapore changes her growth model before these tides rise dangerously high~~.~~

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