Source: *The Straits Times,* pA20
Date: 18 January 2017

EconomicAffairs

Transform or risk new normal of low, slow growth

A targeted approach is needed, and that is why industry road maps are critical to helping enterprises and workers cope with disruptive change

Tan Khee Giap and Tan Beng Kai

For The Straits Times

Of late, the outlook for the Singapore economy has not been good. Businesses are bracing themselves for a challenging year ahead and workers may be anxious about their job prospects.

The current slowdown merits more attention as it is both cyclical and structural in nature. Business cycles wax and wane, but structural shifts, if not addressed in time, can become an unfavourable new normal for Singapore, with prolonged periods of low and slow growth.

The latest official data gives reason for both concern and cheer. Singapore's economy grew 1.8 per cent last year, higher than forecast but still the lowest since 2009 when the global financial crisis hit.

Unemployment remains low, but the Ministry of Manpower's figures for last month indicate that more jobless residents are taking a longer time to find work.

For businesses, a recent poll by KPMG found that 70 per cent of respondents cite the economic outlook as a major concern. Yet, many businesses are also preparing for the future, with plans to develop new products and services, as they believe the slowdown may be short-lived. Such long-term focus amid short-term pain is the right way to go.

Looking ahead, there are global and regional developments that could disrupt businesses that fail to adapt to the times, but promise gains to those that transform and respond to change effectively.

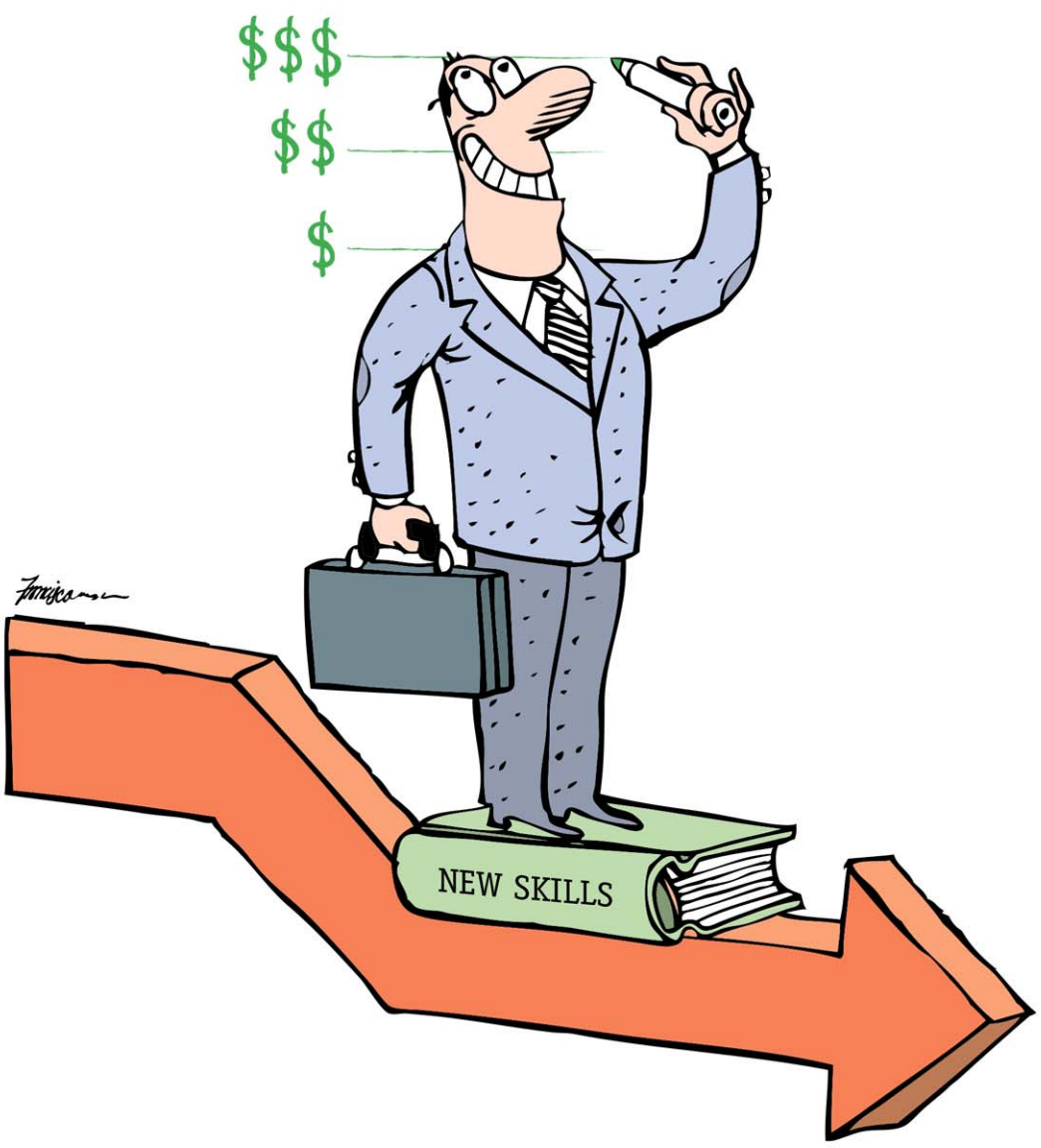
One such development is the rise of digital manufacturing, which is revolutionising the way products are made through robotics, 3D visualisation and data analytics. Imagine fully automated "smart" factories of the future that boost productivity and profits, while creating new and higher-skilled jobs such as those of data scientists.

Another is infrastructure. There are a handful of massive projects planned for Asia but none is likely to top China's Belt and Road Initiative, which has the potential to not only accelerate growth across the region but also upend the regional order. Armed with a war chest of more than US$1 trillion (S$1.4 trillion), China plans to boost trade by building infrastructure that connects Asia, Europe and Africa along five routes.

Other projects include a mega maritime port under construction along the Strait of Malacca and north of Singapore, and the proposed Singapore-Kuala Lumpur high-speed rail extending to northern Malaysia – linking up Thailand, Cambodia, Vietnam, Laos, and all the way to southern China.

Together with a proposed Kra Canal that would open a shorter shipping route that bypasses Singapore, there is a need to prepare for a future that may see the Lion City lose its treasured sea-hub status.

All these projects and plans will take years to build, but the push to transform Singapore's industries and companies must start now.



TRANSFORM OR BE TRANSFORMED

This transformation will not be effective with a one-size-fits-all approach, as the impact of change is different for each industry and sector. What is needed is a targeted approach, and that is what the Government aims to do with Industry Transformation Maps (ITMs) – a $4.5 billion programme to promote growth and competitiveness in 23 industries.

All these efforts to help companies and workers transform will not pay off unless they are prepared to adapt to the new economy. Companies will need to embrace change, and workers will need to be willing to acquire new skills for the new jobs.

The industries include construction, healthcare, food services, retail, hotels, logistics, food manufacturing and precision engineering, and they account for about 80 per cent of Singapore's gross domestic product.

Each ITM maps out strategies to transform industries in four ways: help companies improve productivity; develop workers' skills; use research and development to promote innovation and adoption of technology; and help companies expand overseas.

Take the precision engineering (PE) sector, for instance. A backbone of the manufacturing industry, it is made up of some 2,700 companies that design, prototype, produce and supply critical parts for the electronics, aerospace, automotive, marine and other sectors.

When a PE productivity road map was launched in 2011, the sector's output grew by 68.3 per cent and its value-added by 50.6 per cent from 2009 to 2015. An ITM for this sector will hopefully achieve much more, such as helping PE firms set up digital factories and develop new products.

In food manufacturing, there is the example of Tan Seng Kee Foods, which found a high-tech way to keep its noodles fresh longer and became Singapore's first to export fresh noodles, all ready to be cooked in its special laksa, curry mee and other sauce mixes.

Tan Seng Kee Foods' achievement is an example of the innovation that has put Singapore on the global food map. An ITM for this industry could turn what once appeared to be a sunset industry into a thriving business with higher value-add per worker and healthier returns.

WILLINGNESS TO EMBRACE CHANGE

The regional landscape is being reordered on a massive scale. That means that beyond transforming its industries and sectors, Singapore also needs to develop strategies to transform its economy as a whole. Take as an example the impact of the Kra Canal, should it be built. If Singapore were to lose its sea-hub status, can it still survive and succeed?

It is possible, as its status as a top aviation hub will not be changed and could even be enhanced, should the region enjoy a growth spurt in the number of flights to and from it, as many signs point to.

Singapore could then encourage the growth of industries that synergise with the air travel sector. One example is British engine giant Rolls-Royce, which assembles and tests aviation engines.

In fact, it has teamed up with Singapore's Agency for Science, Technology and Research to develop digital and data analytics capabilities for various industries here, focusing on digital manufacturing and the Internet of Things.

As for big infrastructure projects such as One Belt, One Road, what Singapore needs to do is figure out how to help local companies prepare to seize the new opportunities they present.

Perhaps construction companies could be encouraged to merge and scale up quickly so as to bid for these huge infrastructure jobs. Financial institutions could also position themselves to capture the wealth flows both into and out of China.

All these efforts to help companies and workers transform will not pay off unless they are prepared to adapt to the new economy. Companies will need to embrace change, and workers will need to be willing to acquire new skills for the new jobs.

The shift in mindset will be the most difficult thing to achieve, but it is necessary for the process to be successful. After all, no one said transforming an economy would be an easy task.

stopinion@sph.com.sg

• Tan Khee Giap is co-director of the Asia Competitiveness Institute at the Lee Kuan Yew School of Public Policy, National University of Singapore, where Tan Beng Kai is a research associate.

Source: The Straits Times © Singapore Press Holdings Ltd. Permission required for reproduction.