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CFE report could have included long-term macroeconomic issues

It has missed an opportunity to address structural issues including the viability of the current growth model in the future; fiscal policy reform; adapting to the sharing economy. **BY DONALD LOW**

THE report by the Committee on the Future Economy (CFE) is a comprehensive document that maps out the government's current economic preoccupations and policy priorities. It is useful too in reminding Singaporeans of our constraints as a small, export-dependent and resource-constrained economy.

Singapore succeeded economically in the last 50 years mainly because it embraced export-led growth and open markets before these became economic orthodoxies elsewhere. At a time when the benefits of free trade no longer seem obvious to many in the rich world, when government guarantees of rising incomes and job security are no longer viable, and when societies everywhere are concerned about the impacts of technological disruptions, it is encouraging to see the committee reaffirm Singapore's commitment to globalisation. This is not just good economics; it is also important (political) education for young Singaporeans.

At the same time, one is struck by how focused the CFE report is on microeconomic or industry-specific initiatives. Many of the contentious issues of the last decade were macroeconomic ones – they were issues that affected the entire economy. These included changes to Central Provident Fund (CPF) contribution rates, tax restructuring (and the increases of the Goods and Services Tax in particular), Singapore's sluggish productivity growth, the overreliance on foreign labour to drive growth, the government's regulatory philosophy, and high land and business costs. These issues are hardly mentioned in the CFE report, a marked contrast to the reports of previous economic committees (in 1986, 2003 and 2010) – all of which had a strong macroeconomic orientation.

Perhaps CFE felt that these macroeconomic issues had been adequately addressed by recent policy adjustments, or it believed that our current macroeconomic settings were already optimised for the future such that they did not require significant rethinking.

Even so, one cannot help but feel that the CFE missed an opportunity to address some long-term, structural issues. To my mind, there are at least three such issues.

The first is the question of how "fit-for-purpose" the current growth model is for the future. The model that Singapore has had for the last 50 years is one that is

highly dependent on export-led growth, on foreign capital (in the form of multinational corporations), and on (cheap) foreign labour. This model has probably reached a point of diminishing returns. While the model was extremely effective in delivering rapid growth and job creation in the first few decades of independent Singapore, and enabled Singapore to become a developed economy in two generations, it has not (yet) created an entrepreneurial, innovation-led economy with a core of globally competitive Singaporean enterprises.

The CFE probably recognises this. Its strategy to develop enterprise capabilities such that Singapore can produce scalable innovations may be its way of signalling that the days of easy growth by bringing in multinational corporations (MNCs) and foreign labour are over. But if so, the signal is a rather obscure one.

This section of the report is dominated by a mix of specific recommendations to strengthen Singapore's intellectual property regime and promote growth capital on the one hand, and a broad recommendation to provide "high-growth enterprises with more dedicated and customised support" on the other. While these recommendations are certainly worth pursuing, they would have been much more persuasive if they had been contextualised by an analysis of the current growth model and its limitations, and a discussion of the broad contours of the growth model that the CFE envisages.

DEARTH OF SPECIFIC IDEAS

A second missed opportunity lies in the dearth of specific ideas on fiscal policy reform. While there are a couple of paragraphs recommending that the government "review and reshape Singapore's tax system", this is far too brief especially when one considers the extent of the changes that may be required.

One of the main explanations for the rise of populism and the reaction against globalisation that we see in many parts of the developed world has been a failure of governments to compensate the losers of globalisation and technological disruptions sufficiently. Not only has income inequality increased in most developed countries, but this has been accompanied by wage stagnation for average earners. Technology advances may have created new and better jobs, but they

have also caused the disappearance of many jobs that required "middling" skills and earned middle wages – a phenomenon known as job polarisation.

Even if Singapore has managed to avoid these displacements so far, there is no guarantee that it will continue to do so. Advances in computing power and digital technologies may raise labour productivity significantly, but the benefits are also likely to be highly concentrated – generating ever higher inequality as these technologies spread and more industries take on "winner-take-all" characteristics.

All this, combined with our rapidly ageing local population, suggests that it is quite likely that the state would be called upon to engage in more aggressive fiscal redistribution and to provide stronger safety nets. In fact, such measures are not just a necessary response to higher inequality. They are also an important lubricant of economic restructuring and a complement for measures to promote competitiveness; they make pro-growth policies far more acceptable to workers.

Finally, the CFE missed an opportunity to discuss how Singapore's social security and regulatory systems might be adapted for what is widely referred to as the "sharing economy". Already, a few technological and business model innovations have required our regulatory agencies to relook their approaches and rules. The rise of the "gig economy" also raises important questions on how our social security system (CPF in particular) should be organised.

It would have been helpful if the committee charged with charting the future directions of the Singapore economy had taken a hard look at how these digital disruptions are likely to affect broad swathes of the economy (and the working population), and articulated a philosophy that allows Singapore to benefit from such disruptions while providing some protection to the workers who are displaced. The current approach, in which individual regulatory agencies make their own assessments of the risks and benefits of these changes, is hardly satisfactory in positioning Singapore coherently for a future economy likely to be characterised by many more of such disruptions.

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