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# Singapore's future – anchoring on the small for growth

A new economic model around small and medium-sized growth firms has to be built, says SMU's Professor Hoon Hian Teck

**S**ingapore Management University's (SMU) Professor of Economics Hoon Hian Teck, who is also Associate Dean (Faculty, Research) of the School of Economics, likes to use two graphs to visually depict the challenges facing Singapore's economy.

The first shows the city-state's gross domestic product (GDP) per capita over time, compared with Western countries such as the US and UK. In the 1800s, the UK soared above the rest due to its industrial revolution vastly improving the quality of life there.

Data from Singapore began in 1900, and around that time, the US had overtaken the UK. After the US caught up, it began to grow at the same rate as the UK.

Meanwhile, Singapore's GDP per capita was at 15 per cent of the US for much of the 1900s. But from the 1960s onwards, Singapore began accelerating, growing faster than the US.

By the 2000s, it had overtaken the US. Now, the three lines run slowly in tandem. Singapore has joined the ranks of the developed economies, and cannot expect to grow like before.

"What must guide our thought is that the growth possibilities are very different when you're catching up, versus when you've already caught up," Prof Hoon says.

The second graph is that of Singapore's total fertility rate. In the early-1960s, women were giving birth to five babies each on average.

That fell sharply to below 2 from the mid-1970s and continued downwards. It is now languishing near 1.3.

The ageing population will also mean slower growth.

"Over the next decade, in the absence of any inflow of people, the local workforce will begin to shrink. We've got to face that head on," Prof Hoon says.

"There will be fewer young people, there will be older people in the workforce, and people are living longer."

#### Managing expectations

As the government prepares its 2017 Budget to steer the economy through a slower growth environment, what is also important is to manage the expectations of young people entering the workforce, Prof Hoon says.

The traditional narrative of only holding one or two jobs in a government-linked and then a multinational company would no longer hold.

This is because Singapore's growth will likely be driven by smaller firms which can survive and in time, internationalise.

As a result, there will be more job turnover as graduates join start-ups, most of which inevitably fail.

There needs to be "an equilibrium where people understand that, I start my career with a young firm, work for a few years, the business doesn't work, I leave".

Joining smaller firms means that one's starting salary will be lower compared to a similar job in a bigger company, Prof Hoon says. But if the firm succeeds and breaks into regional markets, one's pay will catch up.

Without changing people's expectations, if they hold on for plum multinational jobs that do not materialise, the result is going to be higher unemployment, he says.

Meanwhile, there is potential in small and medium enterprises (SMEs). For example, in retail and food and beverage firms, productivity levels are still low compared to other advanced economies such as the US. "Precisely because it's low, there's potential to lift it," Prof Hoon says.

#### Creating economic dynamism

Singapore's Budget thus has to recognise that new growth will come from smaller firms first, he says. This will be different from the "catch-up"

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phase of growth when Singapore relied on multinational companies to bring in technology.

To create a more dynamic economy through smaller firms, initiatives can be tried at all levels.

First, children can be encouraged to take more risks in school. There can be a narrative going that "it becomes natural for a young kid to finish pre-tertiary education and think one day, I would really like to go on my own and start something".

Second, there can be more room to grow financing for start-ups. That does not happen without a ready supply of venture capitalists. Yet angel investors will only base themselves in Singapore if they see a ready supply of new businesses, Prof Hoon says.

Third, a consistent and serious internationalisation effort has to take place. "It's an empirical finding that larger firms and exporters pay more. So we can continue to have a policy that opens doors for local start-ups."

Digitisation is also an area for Singapore businesses to look into, given that certain businesses are possible now that were not 40 years ago.

"You can now sell things as a start-up that you can't before. Maybe the Budget can lead to some effort to help SMEs build up their IT capabilities, help them enter the digital world, in a way that can open markets for them."

#### Dealing with disruption

Based on the Western experience, technological disruption will hit professionals, managers, engineers and technicians (PMETs) hard, especially those who have good qualifications but are doing routine jobs.

Singapore has to figure out the best way of mitigating the impact of disruption, and what is the best way of providing social insurance, Prof Hoon says. The European system, with generous unemployment benefits, had resulted in double-digit unemployment rates, he noted.

Singapore has focused a lot on low wage workers in the last 10 years, which was important as the wage gap was widening sharply, Prof Hoon says. "But the challenge going forward is, as we saw in Europe, the hollowing out of middle-skilled jobs."

Schemes that subsidise activities with a multiplier effect work the best here, he says.

Examples of these are the Workfare Income Supplement scheme, which boosts the income of low-wage workers, and the Special Employment Credit scheme, which subsidises employers who hire older workers.

Singapore can also improve its job-matching system. "We have a very good flow of information so we should be able to improve job-matching to keep our unemployment rate low," Prof Hoon says.

Otherwise, unemployed mid-skilled people, if left on their own and are not able to find work, will negatively affect the rest of society, he says.

Ultimately, Singapore has to continue experimenting to see how best to develop its economy, Prof Hoon says.

Multinational companies should still be welcome, as graduates can learn the best management practices from them.

"But we can't go back to the past, where multinationals came in and brought lower-end jobs. Encouraging small firms to grow and innovate is the only way we can generate growth."

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