

THE  
LAST WORD



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# The road to economic success

Astute planning paved the way for Singapore's economic development.



A BIG mystery in economics is why some nations succeed and others don't. The greatest contrast is probably between North and South Korea although in many ways, these countries are the same. Both have about the same land area, natural resources, language, climate and culture. Some of the families are even the same since some were split between North and South after the Korean War ended in 1953.

Other rich and poor pairs are Thailand versus Myanmar, Mexico versus Cuba, and South Africa versus Zimbabwe. You can't help but wonder if the leaders of the successful nations received an "A" grade in economics while the others didn't attend class and received an "I" grade for incomplete.

In 1776, Adam Smith attributed a nation's prosperity to an economy's openness. Today, we know it also depends on economic policies. Like what? Which have worked well for us?

Singapore has a limited land area, no natural resources and in the early 1960s it was described as "a mosquito-infested swamp land". Yet the nation has managed to survive and prosper.

If Singapore were to "pair" itself with another region, it might be with Bintan, Indonesia. Both are islands and both are located in the same part of the world. In fact, Bintan would appear to have the advantage since its land area is more than

twice that of Singapore (1,866 sq km for Bintan versus 666 sq km for Singapore), yet its per capita (gross domestic product) GDP is only one tenth of ours.

Setting up good economic policies isn't rocket science. Any nation can do it. But not every country does and the GDP difference between "twin countries" is enormous. Take my favourite: North versus South Korea where the GDP gap is US\$600 versus US\$26,000. By the way, Singapore's per capita GDP is US\$55,000 per year and is the eighth highest in the world.

What makes a nation successful? For the benefit of Kim Jung Un (North Korea), Robert Mugabe (Zimbabwe) and Raul Castro (Cuba), here are Singapore's seven secrets for success.

## Seven steps to prosperity

### 1. Foreign investment

Why fear foreign investment? It is the only way a country can quickly build factories and import technology. In the late 1960s, Singapore made presentations to multi-national companies (MNCs), convincing them to come here and set up shop.

Other developing economies did the opposite. They feared exploitation and foreign ownership, and so they discouraged foreign investment. Too bad. They missed out.

### QuickQuote

What it comes down to is that anybody can win with the best horse. What makes you good is if you can take the second or third-best horse and win.

Vicky Aragon

### 2. Foreign talent

Employing foreign talent supplements the workforce. Foreign manpower contributes towards the GDP. Having a wider pool of talent, both local and foreign, adds more variety and a wider base of skill sets in the workforce.

### 3. Stability

Exxon-Mobil picked Singapore to build its largest petro-chemical plant in Asia. Other MNCs have also chosen to expand their businesses here, adding to the growth and vibrance of the economy.

A key reason is predictability. Companies have the confidence to invest here if they know the policies that brought them here in the first place will still be in place 20 years later. Stability reduces business risk.

### 4. Invest

Which is best: Debts or surpluses? Debts allow a country to spend now and live it up in the short run. Surpluses benefit future generations.

Singapore has chosen to invest in the future. Its sovereign funds are estimated by Morgan Stanley to be worth over \$700 billion, making it the fourth largest in the world, after Abu Dhabi, Saudi Arabia and Norway.

### 5. Comparative advantage

Economics is sure of one thing: A country should focus on its natural advantages – which makes a lot of sense unless it has none.

Singapore has no natural resources except for human resource. There is no choice but to go out and create opportunities. But how to create something from nothing?

In the 1950s, Singapore was not number one in anything. Today, it is a one of the leading countries in airlines, port facilities, ship building, shipping, semi-conductors, telecommunications, tourism, banking, scientific research and education. The Economic Development

Board (EDB) lists 24 industries in which Singapore has a leading position in the world and six more targeted as emerging industries.

### 6. Tripartism

It is helping all three parts of the economy: Government, business and labour. Like a three-legged stool, if one leg fails, the stool will collapse.

Labour is often seen as the most vulnerable but Singapore's Ministry of Manpower has empowered it with a powerful union, the National Trades Union Congress (NTUC). It has taken a responsible approach and worked with businesses and the government to increase productivity and reduce conflict.

### 7. Legal system

If a business partner cheats you, you can seek legal recourse. There are laws to protect businesses. It is like having a second chance. You don't get that everywhere.

An adjunct professor at SMU, Dr Haverkamp contributes this column weekly to help our readers understand money matters better.