

How Singapore can secure its economic future

Inject a dose of risk-taking and remain relevant to the rest of the world

Chia Yan Min
Economics Correspondent

Driverless cars zip through the tree-lined streets of a city nestled under a protective dome which keeps out pollution and harmful UV rays.

Technicians with highly specialised skills work alongside robots in factories, while scientists research the next cancer vaccine, and bankers, lawyers and businessmen negotiate deals spanning multiple countries across the region.

For now, this vision exists only in the realms of science fiction but it could be Singapore's reality if the cards are played right.

If this utopian dream is to be realised, what needs to be changed and is Singapore already on the right path?

DEEPENING AND STRENGTHENING

Singapore has managed to overcome many of its disadvantages by using technology – such as the development of Newater and desalination plants to overcome its lack of water resources.

What it cannot change, however, is its location. Fortunately, this will continue to be a key advantage in whichever growth strategies it chooses to pursue.

The Republic's location in the heart of fast-growing South-east Asia, combined with its strong institutions and physical infrastructure, will entrench its position as the region's "middleman" even in the long term.

"Our expertise has tended towards being a synthesiser of things, being an adaptor... given that naturally we don't have the platform to have that big enough market to develop products," said Mizuho economist Vishnu Varathan.

To this extent, there is no need for a radical transformation of Singapore as it has always been a purveyor of trade in the region.

In fact, it already has the building blocks of the new economy, where legal, accounting and financial services will still be in high demand for a fast-growing South-east Asia.

Said Professor Hoon Hian Teck from the Singapore Management University School of Economics: "Singapore's strong legal institutions and excellent physical infrastructure give it a comparative advantage in the 'middleman' role, particularly as the region expands."

But Mr Devadas Krishnadas, chief executive of management consulting firm Future-Moves Group, said the financial sector needs to evolve beyond the current emphasis on wealth management.

"We need to deepen and widen the human capital expertise in the legal and accounting fields such that we have the capability and capacity to undertake larger and more complex financial and business transactions."

"(For instance) we need a financial services sector that is geared to deal-making more than it is about wealth management," he said,



adding that Singapore should also nurture home-grown brands in sectors such as consulting, executive education and advisory services.

The Republic's location in the region means its status as one of the key hubs for multinational firms will continue to grow, as companies relocate here to get closer to their markets in Asia.

SIM University senior lecturer Walter Theseira said this will be an advantage that Singapore should continue to hold over its rivals.

Foreign direct investment in Singapore has continued to rise despite the global economic slowdown – from a stock of about \$511 billion in 2008, to \$853 billion in 2013.

A host of multinational firms, including consumer products giant Procter & Gamble and healthcare company Merck among others, have made Singapore their Asia Pacific hub, generating hundreds of high-value jobs.

"Even as other countries catch up, we do have the advantage of a head start and an existing concentration of such higher value functions in Singapore, and that is quite valuable to firms who are making these location decisions, because they can benefit from shared access to the same pool of talent and higher end professional services in Singapore," he noted.

ADAPTING AND EXPERIMENTING

But while the basic blocks are in place, this will not be enough to ensure that the economy thrives in the future.

Some adjustments will have to be made in the way the economy is managed in the next fifty years, which will be very different from how it has been guided in the past.

One is simply that it will become increasingly difficult to "cherry pick" potentially successful industries.

In the past, the Government would identify a growth sector and work towards making it a key part of the economy by getting trade agencies to woo big firms to set up shop here.

One recent example is the re-

search and development sector, which led to the Government building infrastructure such as the Biopolis to support its growth.

While this worked in the past, it is no longer as easy to predict the trends disrupting the world's largest industries, said Boston Consulting Group's senior partner and managing director in Singapore, Mr Jeffrey Chua.

For instance, 10 years ago, people could not foresee some of the big changes that have since impacted the global economy.

These include the shale gas boom in the United States which altered the entire global energy landscape; the sharing economy; and the Internet of Things, which refers to the network of physical objects collecting and exchanging data.

CIMB Private Bank economist Song Seng Wun said rapid technological change has made product cycles much shorter.

"Before 2000, product cycles were long. Now product cycles are super compressed, sometimes as short as three years," he noted.

This means industries and companies could move in and out of Singapore at a much more rapid pace in future.

"We have to keep the environment conducive for allowing different industries to come and go... Singapore must remain an attractive place to do business for highly specialised, high value-added companies... There's no way of knowing what kind of industries they will be in," added Mr Song.

Even as policymakers prioritise certain key growth industries, they must also leave room for unpredictability, said Mr Chua.

"We have to build adaptiveness into the system... We have to keep detecting signals on what's happening out in the world, to discern which of the weaker signals might one day become a big trend."

This means there has to be an appetite for risk-taking incalculated into both policymakers as well as the younger generation of Singaporeans.

They should be allowed to experiment and even fail, as this is now

part of the formula for success, experts said.

Mr Adrian Kuah, senior research fellow at the Lee Kuan Yew School of Public Policy, notes that Singapore still suffers from a "societal problem of extreme conservatism towards risk taking".

"How can we genuinely and meaningfully reshape the incentive structures confronting individuals so that they choose the road of innovation and entrepreneurship? The reason always given is that people are scared to fail," said Mr Kuah.

Societal and family perceptions of failure must shift and the education system must be more forgiving in creating pathways beyond failure, added Mr Kuah.

A critical factor in the success of small advanced economies is "the mindset and willingness to try", said Ms Diaan-Yi Lin, director and managing partner for Singapore at McKinsey & Company.

Singapore provides a safe environment with low risk for both companies and individuals, and going abroad to more competitive markets is risky and challenging.

However, if Singaporean companies address the global trends of disruptive technologies, ageing and emerging markets, there is much to gain, said Ms Lin.

EXPLORING AND CHANGING

For this reason, Singapore, even as it leaves room for experimentation, should pay close attention to global trends for future growth.

Experts said there are several but a few stand out for Singapore.

One is robotics, or smart machines, which can do the work that humans currently do.

Machines have been used in many ways in the past to supplement human labour. The difference today, and in the future, is that these machines are now smart and can do tasks independently of their human operators.

Smart machines will enter offices, factories and homes "in numbers we have never seen before" over the next decade, said Mr Lee Chew Chiat, the public sector industry leader at Deloitte South-east Asia.

"They will become integral to teaching, medicine, production, security, and virtually every domain of our lives," he added.

This is not too far off. Already, countries like Japan are using robots to replace human labour in factories.

Google has started to invest in humanoid robots which can traverse rough terrain, while IBM is developing a supercomputer to find personalised treatments for cancer patients, which would replace doctors.

Another game-changer will be the development of autonomous vehicles, experts said.

"The impact will be massive... (for instance) drivers will have to eventually find other jobs, or will have to change their roles significantly to adapt," said Dr Theseira.

Another mega trend that Singapore can play a role in is the changing demographics of many advanced countries.

Singapore can turn its ageing problem into an economic advantage by leveraging off on its strong position in the biomedical and healthcare sectors, said Barclays economist Leong Wai Ho.

"We can turn the ageing demographic into a strength by building a centre for experimental geriatric medicine and technologies."

This would tie in with deepening Singapore's expertise in urban planning and the environment, which would also involve understanding the needs of the elderly.

"This is worth a bit of growth since it involves building new towns in a different way, perhaps even in an array of climate controlled domes that would also shield us from the haze," added Mr Leong.

In this instance, the blueprint for future success has already been drawn up today, and it remains largely intact.

What it does need is a fresh injection of impetus, a dose of risk-taking and a hard look at how to continue making Singapore relevant to the rest of the world.

chiaym@sph.com.sg

REMAIN ATTRACTIVE TO COMPANIES

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