2-2012

Beyond Catch-Up to New Growth Sources

Hian Teck HOON

Singapore Management University, hthoon@smu.edu.sg

Citation

HOON, Hian Teck. Beyond Catch-Up to New Growth Sources. (2012). *Straits Times*.

Available at: https://ink.library.smu.edu.sg/soe_research/1461

Publication: The Straits Times, p A20
Date: 21 February 2012
Headline: Beyond catch-up to new growth sources

Beyond catch-up to new growth sources

By Hoon Hian Teck
FOR THE STRAITS TIMES

ACHIEVING growth through catch-up is by no means automatic. Just witness the number of countries in the world today that remain poor despite many examples of economic miracles.

As a miracle economy, Singapore invested heavily in physical and social infrastructure to support a policy of attracting multinational corporations to produce and sell to the global market. Singapore was able to pick the low-hanging fruit of technology, which boosted our incomes and created jobs.

In the catch-up phase, market forces worked to narrow income inequality without the need for policy intervention.

The reality is that rich countries, such as Singapore has become, can no longer grow as fast. Market forces now tend to widen income inequality. Judging by the experience of Western Europe, unemployment also tends to creep upwards.

The 2012 Budget, in essence, recognises that Singapore is now making a transition from a phase of catch-up growth to being a mature economy. In this mature phase, we need new sources of growth, and policy interventions are necessary to boost the employability and wage earnings of low-wage and older workers.

Since we have established a good reputation as a place for investments, the inflow of foreign workers in the past five years has coincided with growth of 17 per cent of median household income per member, after adjusting for inflation. Households at the 20th percentile experienced 14 per cent real growth in income per member.

The heightened investments that grew in tandem with the increased foreign labour supply boosted total labour demand, and so Singaporean real wages still grew and resident unemployment rate remained low at 3 per cent.

Nevertheless, the constraints from limited land size and the challenge of maintaining social cohesion with a more diverse population place natural limits to the continuation of this growth strategy.

But where would the new sources of growth come from? The 2012 Budget trains its sights on the local small and medium-sized enterprises (SMEs).

Local SMEs would, indeed, appear to be the natural candidate to focus on to provide the boost to productivity needed to lift workers' real wage earnings by about 30 per cent over the next decade. Enhancing the Productivity and Innovation Credit scheme and training support for SMEs are surely welcome measures as they aim to boost the efficiency and lower business costs of SMEs.

Recent empirical research has uncovered the finding that there is a great deal of heterogeneity in the productivity levels among firms in any developed economy. The least productive firms produce and sell domestically. The somewhat more productive firms are competitive enough to also export to the world market. Only the most productive firms both export and open up plants and factories in foreign countries.

In this regard, it is heartening to know that an initiative of the Government and Temasek Holdings called the project finance company, which aims to have about 80 per cent of its portfolio comprising cross-border projects with significant Singapore-based corporate participation, is expected to be operational by the second half of the year. This would help Singapore companies with good business ideas have access to finance to break into the global market.

SMEs are given incentives via the Special Employment Credit (SEC) to substitute older Singaporean workers for foreign workers. The SEC is a wage subsidy given directly to firms for hiring a Singaporean worker above the age of 50.

By lowering the cost of employing a worker, the SEC acts to boost labour demand and it complements the Workfare Income Supplement scheme, which acts to boost labour supply. This two-pronged approach increases the employment rate of older workers while boosting their pay.

Yet, it is a tall order for local SMEs to deliver the growth rate needed to keep resident unemployment rate at 3 per cent. We might have to accept a higher rate, possibly 4 per cent.

The writer is Professor of Economics at Singapore Management University.