ARTICLE FOR THE EDGE

IS SINGAPORE'S COMPETITIVENESS AT RISK?

Singapore is enjoying a powerful economic rebound after a few lacklustre years. The export sector's surge is translating into a more robust manufacturing sector while other activities that benefit from improving trade such as sea and air cargo, logistics and wholesale trade are all gaining momentum. Even the long-suffering property sector is beginning to rise again. But, as Singaporeans revel in more salubrious economic conditions, they should also keep an eye on the continued structural challenges the country faces.

A reminder of these challenges came in the form of the World Economic Forum, WEF's, Global Competitiveness Index rankings. Singapore has slipped from being the second most competitive economy in the world to the third ranked. That is hardly a disaster. In fact, compared to the period 2000-01 to 2006-07 when Singapore had been ranked 7th or worse, the city state's performance is still rather impressive. But the direction of change is a warning and so deserves closer study. And, sure enough, some of the details in the report on Singapore's performance in key determinants of competitiveness do raise concerns.

What are Singapore's strengths and weaknesses?

Overall, Singapore remains a highly competitive economy.

Of the 115 sub-indices, Singapore ranked in the top 10 in 75 of them, leaving only 38 areas where it was outside the top 10 and 2 which were not applicable to Singapore. Moreover, in some of the areas where Singapore was relatively poorly ranked, the WEF boffins may have had a somewhat eccentric reading of the facts:

- Singapore was ranked a horrible 76th position on inflation, dropping 75 positions in the process. This makes no sense. There is no severe inflation or deflation problem in this economy. Singapore may have a problem with the high cost of business due to high rents and salaries but not one with runaway inflation or deflation.

- Singapore was also penalised for its apparently high ratio of government debt to GDP. This, too, makes little sense. What passes off as "government debt" is almost all related to the special bonds that the government issues to the Central Provident Fund (CPF) to facilitate the transfer of funds from CPF to GIC which manages those funds. If the CPF Board had had an investment committee which allocated the funds directly to GIC, then there would be no such debt at all. It is simply an accounting mechanism. In fact, the government's massive net creditor position is a source of unique strength for Singapore, not a weakness.

- Singapore's ranking also took a knock because of seemingly bad performances in strange areas such as tuberculosis cases and the business cost of terrorism. While tuberculosis cases may have increased a tad in recent years with the inflow of foreign workers, and while the risk of terrorism has certainly become of greater concern, there is nothing to suggest that either of these problems is so serious as to affect competitiveness, whether directly or indirectly.

- Finally, Singapore's relatively poor rank in some metrics could not be avoided. Singapore has a relatively small population, so it is not surprising that it ranked poorly on the size of its GDP and domestic market. Singapore was also marked down because of an unbalanced proportion of women in the labour force. This is surprising given the high female labour force participation among the resident population. However, as most foreign workers (ex-domestic maids) are male, that could have skewed the ratio against Singapore.

So, what should worry us in the WEF report?

Still, despite some glitches, the WEF report does provide some insights into areas of weakness that we should address.

One clear area of concern is innovation:

- In particular, Singapore did not do well in areas such as innovation capacity, quality of scientific research institutions, company spending on research and development and patents. As we pointed out in an earlier column in August, the International Monetary Fund has also identified this as an area of weakness for Singapore.

- Singapore's ranking in the related area of technological readiness is also disappointing and could partly explain this weakness in innovation. It may surprise Singaporeans to know that the city state does not do well in areas such as individuals using the internet and broadband subscriptions but that is what the WEF's study shows. Singapore is also weak in firm level absorption of technology and the availability of the latest technologies.

Another area where Singapore performs relatively poorly is what the WEF calls business sophistication – Singapore is marked down on almost all the sub-indices in this area especially in local suppliers' quantity and quality, control of international distribution and nature of competitive advantage. Given that Singapore has sophisticated and dynamic multinational companies while most of its government-linked companies operate quite well, this poor ranking almost certainly reflects the weakness of the local private sector.

In addition, the WEF report brought out some other areas of possible under-performance. The rankings on some aspects of the legal and regulatory regime were not flattering, such as the efficiency of the legal framework in challenging regulations and the legal rights index for financial sector development. The WEF had in the past marked Singapore down on judicial independence but the ranking in that area has now improved a bit.

What needs to be done?

Even as Singapore continues to be highly competitive, even as it ticks most of the boxes that matter, it has to stay alert to emerging signs of weakness or to flaws in parts of its development strategy. The WEF study does highlight some potential problems which must be tackled before they become serious impediments to growth.

Let's focus on innovation since that is the key to Singapore's future prospects. On virtually every component of the innovation pillar that the WEF quantified, Singapore was either performing poorly or beginning to lose its edge where it was doing well. There are two reasons why Singaporeans need to better understand this under-performance in innovation:

- First, Singapore has reached a very high level of per capita income which means that it is already near the frontier of economic potential. Further improvement in our economic position can only come from innovation-led growth. All the more since our labour force will not grow very much in the future.

- Second, Singapore has poured billions of dollars since 2000 into innovation activities. If after more than a decade and a half of immense effort, there is little to show, then there is something fundamentally wrong in Singapore's strategy that needs to be understood better and addressed. Interestingly, this is something that other studies have also highlighted. The INSEAD survey of global innovation found that Singapore was world class in mobilising inputs for innovation but that the actual achievements in innovation were middling. When they calculated an innovation efficiency index, comparing outcomes to inputs, Singapore ranked very poorly.

The policy implication is that there might be a need for a thorough-going review of Singapore's efforts in the innovation space since 2000. No reasonable person expects quick results in this area since innovation capacity takes years to develop. However, it has been more than a decade and a half and yet Singapore has little to show for its efforts - and that suggests that there could be issues with policy design or the institutional architecture supporting innovation such as the way research institutions are managed or with the education system or the overall business eco-system.

A second area where policy may need to be re-thought is that of local enterprise. In particular, Singapore's low ranking on the quantity and quality of local suppliers is a worry. The whole point of an economic development strategy is to build local capacity - even a multinational company based strategy should eventually help to develop world beating local competence. If it is not, Singapore needs to understand why such capacity is not evolving. Of course, this is an old problem and the government has had a multitude of schemes to assist local enterprises. Yet, the problem persists. As with the innovation effort, there needs to be a review of the approach towards developing local enterprises, identifying what has gone wrong despite the policy support given. The decision to merge International Enterprise Singapore with SPRING Singapore to form an institution dedicated to developing local enterprise is a promising first step in this direction.

A third area that needs attention is the issue of market size, which is really about the ability to scale up. An emerging feature of the new economy being created by the multiple technological revolutions underway seems to be that countries with large markets are at an advantage because they allow their innovators to quickly scale up and gain cost and other efficiencies. While Singapore's small population places an inherent limit on this ability, it does not mean that nothing can be done about it. A more imaginative approach to free trade and economic partnership agreements could help our trade negotiators achieve more access to large markets so that innovating Singaporean companies can quickly scale up.

The bottom line: Singapore cannot rest on its laurels

The best time to address a problem is when it is still emerging and thus more easily resolvable. As a small country, Singapore has to be doubly conscious of this because it has less of a buffer than large countries to make mistakes or be caught off guard by dramatic changes in the economic landscape. So, despite Singapore's sterling current position in global competitiveness, it has to energetically tackle areas where the warning signs of future problems are apparent.

For Singapore, this means a more vigorous effort to tackle three key areas – innovation, local enterprise and gaining scale. Much effort has gone into tackling these challenges but not enough headway has been made. A key factor that differentiates successful countries from the less successful is the capacity for rigorous self-examination – to fearlessly and critically examine past practices and change them boldly where they have been found wanting. Singapore has to demonstrate that it still has this capacity.

Prepared by Manu Bhaskaran, CEO, Centennial Asia Advisors