



By Diaan-Yi Lin

Securing Singapore's prosperity amid greater global uncertainty

Immediate action will help cement its hard-won place as Southeast Asia's business and investment hub and as a truly global city.

Singapore embodies many qualities that other cities aspire to. It is orderly, clean, and livable, and a welcoming place to start a business or raise a family. More than five million people of different ethnicities, languages, and religions live side by side in a culture that offers a beguiling mix of the exotic and the familiar. And the state is deeply integrated with the rest of the world through the cross-border transmission of goods, services, information, capital and people.

For the past five years Singapore's standing as a global city has peaked during the Singapore Summit and the Singapore Formula 1 Night Race. But this year's Summit-Formula 1 weekend was set against a troubling backdrop. The past half-century, a period of economic growth that buoyed governments, households, and companies, is coming to an imminent close.

The shock of the 2008 global financial crisis triggered the first recorded drop in global GDP. Since then, the hangover has persisted. Singapore and many other states have struggled with unexpectedly weak recoveries. Singapore's quarterly growth has not exceeded 3 per cent for the past seven quarters. And the long-term economic outlook is gloomy. The government recently lowered the upper limit for its growth projections from 3 per cent to 2 per cent.

The slowdown in China's economy should be especially worrisome for Singaporeans. China's astounding economic success over the past 30 years was a boon to Singapore and the wider world. Today, its economic trajectory is casting a shadow on global growth prospects. The International Monetary Fund estimates that every one percentage point decline in China's growth brings a 0.3 percentage point drop in Asian growth. ANZ economists

estimate that the same one percentage point drop in Chinese growth will drag Singapore's economy down by 1.4 percentage points.

Of course, China is hardly the sole cause of the world's economies woes. Many other factors are at play. Investment growth has slowed significantly since 2008, and spiraling debt has restricted governments' capacity to stimulate a recovery with public investment. Consumption growth has remained below pre-recession levels for longer than during any previous recession. Stagnant population growth means that consumption growth will have to come from per-capita consumption. But a lack of consumption-supporting policies in some large advanced economies poses a serious threat to global consumption and demand growth.

Meanwhile, political volatility and discontent is increasing to an extent that also imperils growth. Among G-20 countries and Nigeria, the average tenure of political leaders was shorter in 2007-2016 than in any other 10-year period going back to 1945. An IMF study in 2011 showed that increased political volatility reduces GDP growth rates "significantly". And around the world, the belief that globalization is a means to broad-based growth and prosperity has been shaken: by greater cross-border flows of people, heightening security concerns, and perceptions that the benefits of growth have not been evenly shared. Protectionist sentiments are spreading as profound economic shifts such as income stagnation and digitalization marginalize large segments of the working population.

Fortunately, Singapore is endowed with advantages that should help to buffer it against challenging global forces. Its social and political stability make it a haven for investment and business activity. Its people are well-educated and hyper connected, with high levels of smartphone penetration and Internet access. And it is the highest-ranked country in the McKinsey Global Institute's Connectedness Index, which measures the cross-border flows of goods, services, finance, people and data.

These advantages position Singapore to pursue three prime opportunities to reinvigorate growth. The first of these opportunities has to do with tapping the demand of Singapore's fellow ASEAN members. The creation of the ASEAN Economic Community (AEC) has set the stage for Singapore to serve what is becoming an open market of some 600 million consumers. Integration should accelerate the flow of trade and encourage Singaporean businesses to enter new markets. As AEC members resolve the inefficiencies of exporting, goods and services should become more widely available and less expensive, thereby spurring new consumption that should benefit Singapore. Singaporean businesses, both large and

small, can prepare to capitalize by factoring integration and emerging trade deals into their strategies.

The second of these opportunities has to do with productivity. Although companies based in Singapore and elsewhere in Southeast Asia have experienced a remarkable rise in their revenues since the 1980s, the lion's share of global profits has gone to large Western multinationals and to companies in capital-intensive industries. Now, profits are shifting from asset-light, idea-intensive sectors that depend greatly on technology. Singapore has much of the digital infrastructure it needs to support an idea-intensive economy. If it can disseminate digital technologies more broadly, it can bring lagging sectors up to speed. Asset and labor-heavy sectors have ample opportunity to digitize their equipment and their workforces, and to implement the processes and business models that will help them capture maximum value from digitization.

The third and final opportunity for Singapore to stimulate growth is expanding participation in the workforce and extending the benefits of economic growth. The recent creation of the Committee on Future Economy (CFE) reflects the widespread recognition that Singapore needs strategies for achieving sustained, inclusive growth amid economic shifts at the domestic and global levels. As the CFE's subcommittees and working groups complete their studies of issues such as jobs, training, and high-growth sectors, this should prepare the government to launch initiatives focused on increasing inclusion. One initiative that is under way now is the SkillsFuture program that helps citizens acquire job skills suited to a changing job market. Further efforts along similar lines should enable Singapore to generate prosperity broadly across the population.

The slowing of growth in Singapore threatens to create new tensions that could weaken social support for the statewide economic agenda and for Singapore's openness and global orientation. Although it will take time for Singapore's economic outlook to improve, policy and business leaders can take steps now that growth will accelerate and that the benefits of growth are shared more widely than in the past. Immediate action will help secure Singapore's hard-won place as Southeast Asia's business and investment hub and as a truly global city.

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