By Diaan-Yi Lin | January 2017

# Singapore in 2017: A to-do list for leaders

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For Singapore, events at home and overseas have set the scene for a momentous 2017. Economic growth in Singapore has slowed dramatically. This years' growth rate could be as low as 2 percent, if the government's most recent projections come true. Singapore's ruling party also faces questions about leadership renewal. Economic and social shifts beyond Singapore might have significant effects on the city-state in 2017 as well. Profound political changes in important Western markets could lead to restrictive policies on cross-border investment, migration, and trade. Such policies, along with China's uncertain economic prospects, may slacken demand for Singaporean exports. These forces are particularly worrisome because so much of the economy is connected to international markets.

For leaders in business and government, it will undoubtedly be difficult to balance short-term challenges with issues that are farther out on the horizon. The slate of potential agenda items for 2017 is long, and organizations will have varied priorities. But most will have to grapple with three big issues in one way or another.

**Rebalancing the economy**

For most of the last 35 years, Singapore's annual growth rate has topped 6 percent, due in large part to the strength of export-focused sectors such as manufacturing. In fact, Singapore is the top-ranked Association of Southeast Asian Nations (ASEAN) economy by volume of exports. Of course, Singapore's export-oriented businesses depend on the health of the global economy and their freedom of trade.

The global economy is now in a fragile state of low growth and geopolitical uncertainty. Skepticism about the benefits of globalization has intensified across much of the developed world. Indeed, it appears unlikely that the Trans-Pacific Partnership (TPP) will be ratified. Singapore can no longer count on trade-driven growth.

Singapore's economy can become more resilient through diversification. (Most of its growth from 2006 to 2012 resulted from productivity gains within sectors, rather than from shifts from less productive sectors to more productive ones.) Expanding sectors that are less susceptible to external shifts would help. One such sector might be small and medium-size enterprises (SMEs) that mostly serve customers in Singapore and ASEAN, rather than in distant markets. Companies in Singapore can also benefit from investing in technologies. Manufacturers, for example, could become nimbler and more efficient by adopting 3-D printing. And nearly every sector stands to gain efficiencies from automation and artificial intelligence. In 2017, Singaporeans might see the government play a role in encouraging investments in these areas and others once the Committee on Future Economy releases the recommendations from its yearlong scan of Singapore's opportunities for economic development.

**Strengthening the workforce**

Singapore's labor productivity in recent years has been uneven from one sector to the next. Export-oriented sectors have shown strong productivity. Domestically oriented sectors have not. To sustain its 2010–2013 GDP growth rate until 2030—a challenging goal, given global economic conditions—Singapore would need to more than double its labor productivity.

Because Singapore's government has invested in skills development, the country ranks highly for workforce competence among its peers in East and Southeast Asia. Management quality is another matter. Many of Singapore's managers, particularly in SMEs, devote their attention to achieving outcomes—for example, fulfilling a given number of orders per day. That means missing out on potential efficiency gains.

Having administered a wide variety of programs aimed at boosting workforce productivity, the government could catalyze further productivity increases by refining and refocusing those programs. For example, the government might devote extra resources to providing managers with more training, along with tools and resources they can use to help their workers become more productive.

In the United Kingdom, for example, the Productivity Leadership Group offers knowledge and services that enable businesses of all sizes to make performance improvements.

The government might also tie spending and incentives to productivity-related requirements such as investing in new technologies like advanced robotics and artificial intelligence. Automating some activities that people now perform would enable companies to produce more output with the same number of workers. It would also let workers spend more time on higher-value tasks.

**Reducing inequality**

Singapore has one of the highest levels of income inequality, as measured by its Gini coefficient, of any country. Expensive housing burdens many Singaporeans with significant household debt—debt that will get worse if housing prices rise. And living in Singapore is costly all around. According to the Economist Intelligence Unit, Singapore has had the highest cost of living of any city in the world for the past three years.

Singapore's dependence on less-skilled, lower-wage foreign workers makes it difficult to lower inequality. Another challenging factor is that the paths to medium- and high-wage jobs are narrow. In the case of high-level talent, shortfalls tend to be made up through recruiting overseas candidates, rather than training and grooming locals.

Singapore has a potential model for raising the incomes of disadvantaged groups: its Action Plan for Successful Ageing. Admittedly, empowering older people is easy in a society that honors them; low-wage workers enjoy less esteem. But the recognition that every segment of society is a valuable human resource would provide the basis for targeted efforts to aid groups that haven't shared in Singapore's growth.

The employability and learning initiatives of the action plan have clear applications to reducing inequality. Initiatives in areas such as social engagement, inclusion, and innovation are just as important when it comes to expanding opportunities for marginalized groups. Closing the income gap should be a matter of concern for businesses, too, considering that low-income households put a strain on public finances and spend less on goods and services.

Economic rebalancing, productivity improvement, and inequality reduction are shared priorities that will require years of sustained effort to deliver but can also deliver immediate benefits. Fortunately, Singapore has the knowledge and the resources to make a strong start in 2017. If it does, then 2017 will be remembered as a year when Singapore built the advantages it needs to withstand the long-term challenges of weak economic growth and heightened geopolitical risk.

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