

KEYNOTE SPEECH FOR MR CHAN CHUN SING, MINISTER FOR TRADE AND INDUSTRY, AT THE 11TH SINGAPORE ECONOMIC POLICY FORUM ON 25 OCT, 9AM, AT MANDARIN SINGAPORE

Distinguished Guests

Ladies and Gentlemen

SINGAPORE'S CURRENT CONTEXT

1. **The Singapore economy has been doing reasonably well despite the challenges** that we are facing.

- a) In the first three quarters of 2018, our economy grew by 3.8% on a year-on-year basis, and we expect **GDP growth for the full year to be in the range of 2.5% to 3.5%**.
- b) This is despite greater uncertainties and downside risks in the global economy due to ongoing trade conflicts, and the slowing pace of expansion of regional economies such as China.

FIVE CHALLENGES

2. But we are facing both external and internal challenges – there are five key challenges that we have to deal with squarely.

3. First, on the external front, **there is a rise in nativist politics and protectionist economics that is fragmenting the global trading system.**

- a) US and China are raising tariffs in their trade conflict, with the US placing three rounds of tariffs on Chinese products totalling around US\$250 billion this year and China retaliating with its own tariffs on US products. Bilateral trade between the US and China contributes indirectly to 1.1% of Singapore's GDP due to our role in global value chains. As such, a disruption in trade between the US and China is likely to have an impact on the Singapore economy.
- b) More worryingly, if the US-China trade conflict escalates and triggers a sharp and sustained plunge in business and consumer confidence, Singapore's open economy could be significantly affected.

4. Second, **there are also shifts in global production and value chains**, resulting from policies by major economies, as well as disruptions from technological advances.

- a) China has declared its "Made in China 2025" ambition, not only insourcing more, but also aiming to capture the market for higher quality products.

- b) The Trump administration has been careful about foreign investments that could lead to the transfer of technology, IP and innovation, and has been calling for US companies to bring manufacturing back home.

5. Third, **with the rise of the new digital economy, business models are changing, creating new competitive dynamics and affecting the way we work.**

- a) Digital connectivity has bolstered the rise of the sharing economy. Uber is now the largest taxi company in the world, while AirBnB the largest hotel chain, all without owning a single car or property. Meanwhile, cable TV is being challenged by the likes of Netflix, and supermarkets are facing increasing competition from players like Redmart and Amazon Fresh.
- b) We need new rules not only to keep up, but also to ensure that we support the growth of the sector while protecting consumers.

6. The fourth and fifth challenges are on the domestic front. While the Singapore economy has been growing, there is a wide spread of growth trajectories across different sectors. **We need to couple broad-based economic policies with targeted efforts to build capabilities for each sector.**

- a) In the second quarter of 2018, the manufacturing sector expanded by a robust 10.6% year-on-year, with growth led by the electronics, biomedical manufacturing and transport engineering clusters. However, sectors such as wholesale & retail trade clocked in slower growth of 1.5%, while the growth of the transportation & storage sector eased to 1.3%.

7. Our fifth challenge relates to our labour and land constraints. **We need to find ways to allow these factors of production to be recycled more efficiently.** Our policies need to ensure that barriers of entry are low while the market remains efficient and facilitates the optimal allocation of resources.

Labour

- a) Workforce growth will slow down significantly in the years ahead given our demographics. On the one hand, our population is aging and significant cohorts of workers are retiring from the labour force. On the other hand, our population growth has dropped to 1% over the last five years from 3% in the previous five. Our total fertility rate at 1.16 is not only below the full-replacement level of 2.1 but amongst the lowest in the world. The median age of our workforce is now at 43, and will only increase in the future.
- b) At the same time, rapid technological changes will lead to skills obsolescence at a faster pace than before. Jobs, particularly routine tasks, may disappear soon as they are replaced by automation.
- c) It is pertinent to ensure that available labour is channelled to the more productive activities. This is a question not just of numbers (quantity), but also of having the right skillsets (quality).

Land

- d) Unlike bigger countries, land is a finite and scarce resource for us, even as our activities, both economic and non-economic, continue to grow. We need to be more innovative in land use (be it going high-rise, underground or having shared facilities), and similarly ensure that land is channelled to the more productive activities.

FIVE OPPORTUNITIES

8. The five challenges may seem formidable, but I also see five significant opportunities for Singapore.

9. First, **a rising Asia**. Besides being a member of the region, how do we make ourselves relevant in this region to prosper together with our neighbours?

- a) There is increasing urbanisation, and Asia, with China and India in the lead, is projected¹ to represent 66% of the global middle-class population, and 59% of middle-class consumption by 2030.
- b) ASEAN's combined gross GDP of US\$2.6 trillion in 2016 made it the world's sixth-largest economy. With an annual growth forecast of around 5%, ASEAN is expected to become the fourth-largest economy by 2030². IMF has projected that Indonesia, Thailand, Philippines and Vietnam, on top of Malaysia and Singapore, will make up the majority of ASEAN's GDP by 2022.

10. Second, **the rise of new technologies** – digital, robotics, artificial intelligence (AI) - means that **geography and size are becoming less important as determinants of our economic potential**. We need to ride on this opportunity to overcome our resource constraints for growth.

11. **On a similar note, the non-physical modes of connectivity will play an increasingly important role** and enable us to grow beyond our physical constraints.

- a) We are already well-connected to the rest of the world physically through our sea port and airport.
- b) The physical connections, when coupled with the non-physical modes of connectivity – trade, talent, finance and data, make a compelling economic proposition.
- c) We are starting from a good foundation. We already have extensive trade links, and are open to talent and ideas. We are recognised as a regional financial hub and a regional data hub.
- d) Going forward, we must continue to invest in our connectivity, not only physical, but also in the non-physical domains.

¹ Source: OECD forecast

² Source: ASEAN Secretariat

12. Fourth, **there are many opportunities we can seize if we leverage our competitive advantage in trust and standards.**

- a) Companies and people choose Singapore because they know they can trust Singapore and Singaporeans. When they sign a contract, they know it will be honoured and they can trust the rule of law. They locate sensitive investments and valuable intellectual property here, because they know their assets and intellectual property will be protected.
- b) Our standards provide assurance on the quality of goods and services that come through Singapore.

13. Finally, **our predictable, pro-business economic environment is a strength we need to sell in this increasingly volatile world.**

- a) Singapore has been ranked highly by World Bank in the ease of doing business³.
- b) This is especially important for sectors, such as deep tech and biopharma, where there are long gestation periods from upstream research to R&D and commercialisation. It is critical for such activities to be sited in a stable environment where investments will be able to bear fruit without disruption from volatile political climates.

EIGHT STRATEGIES

14. What is the future of Singapore? I do not know, but I know what we must do to ensure we have a good chance of success in the future. I have **eight CRITICAL strategies** to share with you:

- Connectivity
- Rules (International)
- I4.0 (Deep Tech, 4-Highs – Mix, Trust, Knowledge, Value-Add)
- Talent Network
- Innovation (RIE Cycle)
- Capabilities Building (LLE-SME-Start-Ups)
- Agile Regulations
- Learning (Continuous)

15. **Connectivity – building connectivity and diversification with Singapore as a node, to enhance our competitiveness at the whole-network level.**

- a) We need to continue investing in physical connectivity, and establish linkages and build capabilities to support trade and data flows. We can then better support both global MNCs seeking to enter Asia, and Singaporean and Asian firms seeking to operate in other parts of Asia and beyond.

³ Singapore is ranked 2nd among 190 economies in 2019, and has been within the top 3 in the past 12 consecutive years (source: ACRA)

- b) We also need to build relational connectivity. Our firms need to develop a deeper understanding of consumers and more relationships with partners in regional markets, so that they are better able to create customised solutions that meet regional needs.

16. **Rules** – international trade rules create an open, transparent and predictable environment, allowing us to do business in the region and throughout different parts of the world. Singapore has benefited from an open, rules-based, multilateral trading architecture. **We are contributing to updating the WTO rules, to keep up with new ways of doing business.**

- a) Southeast Asia's digital economy is expected to exceed US\$200 billion by 2025⁴, with e-commerce alone accounting for US\$88 billion. To support the development of e-commerce, **Singapore is leading efforts at WTO, alongside Japan and Australia, to develop rules that will promote openness, trust and transparency in e-commerce.**
- b) We are also continuing to pursue and develop regional agreements such as the Comprehensive and Progressive Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership, as well as bilateral Free Trade and Investment agreements. For instance, we recently signed the EU-Singapore FTA, which will help our companies, including small and medium-sized enterprises (SMEs), to access EU markets more easily.

17. **Industry 4.0** - Leveraging rapid technological advancements in areas such as the Industrial Internet of Things (IIoT), robotics and artificial intelligence, Industry 4.0 can achieve a paradigm shift for manufacturing.

- a) **Adopting I4.0 solutions in manufacturing will enhance our competitiveness in high-mix/ low-volume, high value-add, high trust, high knowledge-add (4H) sectors**, including biopharma (in precision medicine), advanced manufacturing, speciality chemicals and materials, and bespoke financial products (as a part of fintech).
- b) To this end, we launched the **Singapore Smart Industry Readiness Index** last November. This is a framework to help companies determine how they may best implement I4.0 solutions in a systematic and comprehensive manner.

18. **Talent – we will grow our global talent network** to connect Singapore to the world, to connect the world to Singapore and to connect fellow Singaporeans to compete in the world.

- a) We have been developing the **Global Innovation Alliance (GIA)**, with the objective of **establishing networks to create more opportunities for Singaporean students, entrepreneurs and businesses to gain overseas**

⁴ Source: Singapore Institute of International Affairs

experience, connect, and collaborate with their overseas counterparts in innovation hubs around the world.

- b) We are also establishing the Singapore Global Network to engage Singaporean families, friends and fans to be part of the Singapore story.

19. Innovation – Innovation is a key driver of business and has been critical for economies to unlock new, scalable and sustainable means of growth.

- a) We have set aside S\$19 billion over the period of 2016 to 2020 to support public sector R&D in Singapore under the Research, Innovation and Enterprise 2020 (RIE2020) Plan. RIE2020 supports capabilities that are critical to industry, creates good jobs and raises the competitiveness of our economy.
- b) Startups are an important driver of innovation in the economy. They are well-placed to introduce new products and services, catalyse industry disruption, and capture economic value from upstream investments in R&D. **We want to grow a vibrant startup ecosystem that increases the attractiveness of Singapore for business investments and helps to rejuvenate existing industries.**

20. Capabilities building, in particular for large local enterprises (LLEs) and SMEs. Going forward, Singapore's future growth is no longer about being an intermediary with arbitrage as value-add. That is to say, we are no longer just a "trading nation". **We want enterprises in Singapore, local and foreign, big and small, to be best-in-class, and to have deep capabilities that the world wants.**

- a) **Trade associations and chambers (TACs) in particular need to step up to new roles.** A strong and focused TAC can bring the sector together, and a TAC that is involved in implementing the ITM roadmap for the sector can help members define their problems clearly, so that collectively the industry can work together on solutions, whether in the local market or by expanding to overseas markets.
- b) With a good talent pool, a supportive business environment and good connectivity, we are offering much more than just incentives when competing with other countries for investments.

21. Agile regulations – we strive to be the Global Asia Node, to be **the choice location for companies to incubate, pilot, and scale up new business models and technologies.**

- a) **To do this, we are designing regulatory sandboxes and living labs**, so that companies can experiment with new products and services – such as autonomous vehicles and forms of renewable energy, learn from these testbeds, and bring them to regional and global markets.

22. Learning – Workers need to adopt a culture of lifelong learning and training, and Government will provide support through new pedagogies of learning and knowledge diffusion.

- a) With technological advancements, some jobs may be lost but new jobs and opportunities will also be created. Automation can augment our workforce by allowing workers to focus on higher value-adding tasks. This is provided workers continue to develop versatile skillsets and the ability to work in diverse teams to make the most of new job opportunities.
- b) The Government is committed to providing the necessary support for Singaporeans to face the future with confidence. Our SkillsFuture initiatives aim to grow the culture of lifelong learning, and build industry-relevant skills in our workforce. We work closely with tripartite partners and education and training institutions to (i) chart the direction for talent and skills development in our respective economic growth sectors, and (ii) identify current and future skillsets required by industry, and design programmes to equip Singaporeans with these skills.

CLOSING

23. Let me end by coming back to the audience today. I have just outlined the five challenges, five opportunities and eight strategies for us to think through as we collectively keep building on the future of Singapore.

- a) In the Government's work, we are attempting to answer big questions: What is the future of work? What is the future of jobs? What is the future of industry? And collectively, what is the future of our economy? We may not have all the answers, but we are optimistic that if we all work together to challenge the status quo and reinvent ourselves, we will be able to keep Singapore a city of opportunity and build a future economy where both our businesses and people can continue thrive.

24. Teachers, who are in close contact with and who help to shape the minds and values of our next generation of Singaporeans, play a critical role in building our future. You will help to impart not only knowledge but also aspiration and ambition to our future generation. So that they not only know how to do what we need to do, but also why we do what is the best for Singapore.

25. With this, I would like to congratulate the two winners of the Outstanding Economics Teachers Awards:

Mr Chu Hian Meng from Pioneer JC

Mr Toh Jin Tian from Tampines JC