

**SPEECH BY MR S ISWARAN, MINISTER FOR TRADE AND INDUSTRY
(INDUSTRY) AT THE 2017 SINGAPORE ECONOMIC POLICY FORUM AT REGENT
SINGAPORE HOTEL ON 20 OCTOBER 2017, 9.15AM**

Professor Euston Quah, President, Economic Society of Singapore
Your Excellency, Mr. Dmytro Senik, Ambassador of Ukraine

Distinguished Guests,
Faculty and Students,
Ladies and Gentlemen,

Introduction

1. I am pleased to join you at the 2017 Singapore Economic Policy Forum.
2. Let me begin by congratulating the recipients of this year's Outstanding Economics Teacher Award – Mr Haniss B Ali from Nanyang Junior College, and Mr Khoo Gee Hwee from Pioneer Junior College. Economics has been described as a dismal science. But good teachers can excite our curiosity and passion, and show us the tremendous value of economic tools in making sense of the world around us and solving real problems.
3. Since 2006, the Economic Society of Singapore and our universities have come together at this annual platform to raise awareness of important research findings on Singapore and its economy. This year's theme on 'Preparing Singapore for the Future Economy' continues this important tradition.
4. Economic change is accelerating around the world, creating many new opportunities but also causing dislocations to both firms and workers. The challenge for every nation is to formulate a policy response to seize these new opportunities, mitigate the disruption to jobs and industries, and ensure inclusive economic growth that can benefit all. I will briefly describe how we are addressing this challenge in Singapore.

Opportunities

5. First, the opportunities. The centre of gravity for global economic growth is shifting to Asia, with Asia projected to grow faster than the rest of the world. This year, for example, the Asian economy is expected to grow by 6.4%, compared to 2% in advanced economies. In particular, the rapid growth of ASEAN presents significant opportunities for Singapore. Our location at the heart of these growing markets gives

our enterprises an advantage in tapping on this regional demand. Our economic connectivity and the ability of our companies to internationalise will therefore remain vital assets.

6. In that regard, we must continue to deepen and diversify our international connections, within ASEAN and through efforts like the Regional Comprehensive Economic Partnership, which seek to reduce trade and investment friction between ASEAN and its key regional trading partners. As ASEAN chair in 2018, we will seek to strengthen the regional trade architecture to support digital businesses and data flows. We are also developing new forms of global links, by setting up a Global Innovation Alliance to connect with innovation hubs and demand markets around the world, and strengthening collaborations with multilateral development banks such as the ADB and AIIB to support the growing need for infrastructure solutions in the region.

7. Besides growth in Asia, technological change will also have a major impact on our economy. Mr Jimmy Koh and Professor Ivan Png will be speaking later today about digitalisation and the sharing economy respectively, both of which are key trends. New technologies are fundamentally changing business models, even as they open up exciting new opportunities. Innovative companies can profoundly disrupt the status quo and gain significant market share in regional and global markets.

8. We want to help our firms to be well-positioned to harness technology and take advantage of these opportunities. To that end, the RIE 2020 plan aims to enhance the commercialisation of research outcomes and create value across the enterprise spectrum. The Startup SG programme supports innovation and investment in technologies by early stage companies. SMEs can tap on the Capability Development Grant for the same purpose. A*STAR's new Tech Access Initiative helps companies gain access to costly specialised equipment, training and advice, and its Headstart Programme allows for royalty-free and exclusive IP licenses for up to 36 months. IPOS is also working with various partners to provide IP advisory support for innovative companies and has launched the S\$1b Makara Innovation Fund to help them expand.

Key challenges

9. The policies that I have briefly outlined, to internationalise and embrace technological change, are supported by sound economic theory. Trade and internationalisation lead to greater specialisation, higher economic growth and improved standards of living. New technologies are key drivers of growth in per capita incomes over time. However, in practice, an open and accommodative stance towards global markets and technological change does not only bring opportunity - it is also a source of greater competition and may cause some in society to be left behind.

10. One challenge is the stagnation of incomes. Aggregate growth in GDP in developed economies has masked the stagnation of incomes for those in the middle of the income distribution. Dr Lian Weicheng from the IMF, who will be presenting later today, has studied the falling labour share of income around the world, finding that technological changes and increasing global integration are significant contributory factors. He has also found that they have had a particularly large effect on the middle-skilled in developed economies, reducing their share of income significantly. For now, globalisation has taken the brunt of the blame, with anti-globalisation sentiments and rhetoric coming to the fore in the politics of many developed countries. To guard against such views taking root, sound economic analysis can play a key role. It can help to accurately diagnose the problem, eschew sweeping statements and conclusions, and propose policies that can help ensure that the fruits of growth are accessible to all.

11. Recently, the productivity distribution among firms has also been the subject of research interest. While overall productivity growth has slowed in developed countries, there are large variances in the productivity experiences at the firm-level. OECD studies have shown that the firms at the frontier, at the cutting edge of technology, continue to see improving productivity. On the other hand, the laggard firms are struggling to close the productivity gap. The studies suggested two causes. First, a lack of exposure of these firms to global value chains, through which innovative technologies are spread. Second, a slowing in the diffusion of technologies and best practices from frontier firms to the rest.

12. Hence, greater exposure to international markets and competition, and deeper collaboration among firms and public-private partnerships on innovation, can yield significant productivity dividends. Helping firms raise their productivity would also translate into better job opportunities and higher wages for workers.

13. In Singapore, unlike many other advanced economies and Asian NIEs, we have been able to sustain wage growth across the income distribution, with annual nominal growth at the 20th percentile of nearly 4%, between 2011 and 2016, and 4.5% at the median. However, we cannot take this for granted. As economic changes and dislocations increase in pace and scale, we must persevere in our efforts to ensure the gains from globalisation and innovation are accessible to all in the economy.

Our strategy

14. How do we do this? There are two prongs to our strategy. First, to help our people develop deep skills which are relevant for the jobs of the future. Second, to help our companies which are not at the productivity frontier adopt best practices and new technologies.

15. First, skills. In recent years, we have developed and implemented the SkillsFuture initiative, which has emphasised a culture of lifelong learning, with a focus on the development of industry-relevant skills rather than a pursuit of paper qualifications. Going forward, we must ensure that as technologies and business models change, our workers continue to be equipped with the skills needed to stay relevant.

16. Specifically, one of the skills increasingly in demand is regional experience to support internationalisation. Hence, we have put in place programmes to support our workforce to gain such experience, for example through the SkillsFuture Leadership Development Initiative for working adults to be deployed on quality overseas assignments, and IE Singapore's Go Southeast Asia Award for final year undergraduate students.

17. Second, we must also support enterprises to adopt technologies, innovate and scale up. Such support is especially important for our SMEs who individually have limited resources, but collectively employ a large proportion of our workforce and are important determinants of growth and incomes.

18. Earlier this year, IMDA launched the SME Go Digital programme, which pre-approves digital solutions for SMEs. IMDA also works through major companies in each sector to encourage digital adoption among their suppliers. Access is important too, and our network of SME Centres and the soon-to-be-launched SME Digital Tech Hub help SMEs to understand and adopt appropriate solutions for their businesses. Through these initiatives, we hope to raise the capabilities and productivity of the whole spectrum of firms in our economy.

19. These efforts to equip our workers with the relevant skills and strengthen our companies' capabilities require the involvement and commitment of all stakeholders. That is why our government agencies have worked together with the Trade Associations and Chambers (TACs), unions and businesses to develop Industry Transformation Maps (ITMs) for 23 industries across our economy, from retail to precision engineering. Each ITM is tailored for the specific needs of each industry, and enable our SMEs to seize the opportunities the future economy holds through skills development, productivity enhancement, innovation and internationalisation.

Conclusion

20. In conclusion, economic research has played an important role in refining our understanding of the challenges that arise as the pace of change in our economy accelerates. The complexity of today's challenges requires us to bring multiple perspectives to bear to identify emerging issues quickly, as well as to find and implement effective solutions. I look forward to the interesting research and engaging

discussions that will take place today and in the future, as we work in partnership to help both our business and workers navigate the challenges of the future economy and seize the opportunities it offers.

21. Thank you.