

Bolstering our comparative advantage in a fragmenting world economy

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Outline

- What happened to the Singapore economy during period of Smoot-Hawley tariffs?
- Where are we now?
- Bolstering our comparative advantage:
 1. **Institutional quality** given incomplete contracts and prevalence of global value chains
 2. **Human capital** given arrival of general purpose technology
 3. **Innovative culture** given distance to (technological) frontier

Period of Smoot-Hawley tariffs

- “... collapse of international trade and commodity prices in 1931-1932”
- - Quote from p. 133 and figure from p. 132 of Choy, K.M. and Sugimoto, I. (2013) Trade, the staple theory of growth, and fluctuations in colonial Singapore, 1900-39, *Australian Economic History Review*, 53(2): 121-145.

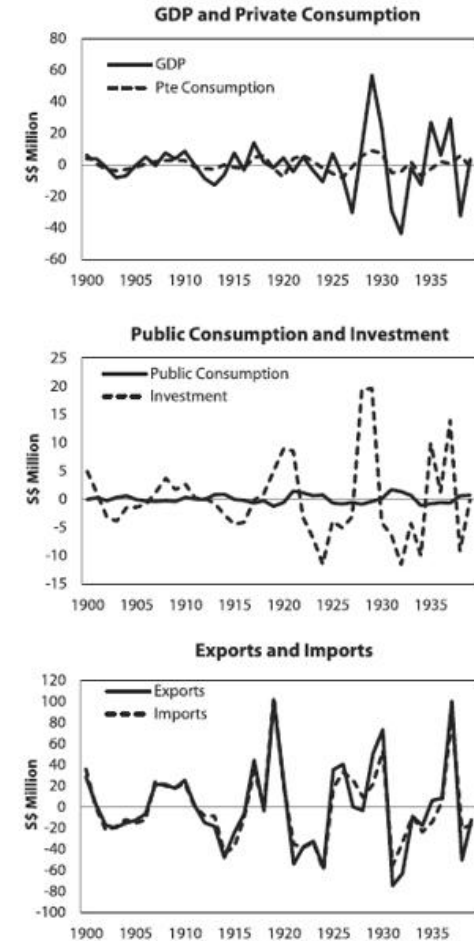


Figure 2. Cycles in national income components (million S\$ at 1914 prices).
Source: Authors' calculations based on data in Sugimoto, *Economic Growth*.

Where are we now?

- From catch-up to being a mature economy
- Figure from p. 2 of Hoon, H. T. (2022) *The Singapore Economy: Dynamism and Inclusion*, ed., London and New York: Routledge.

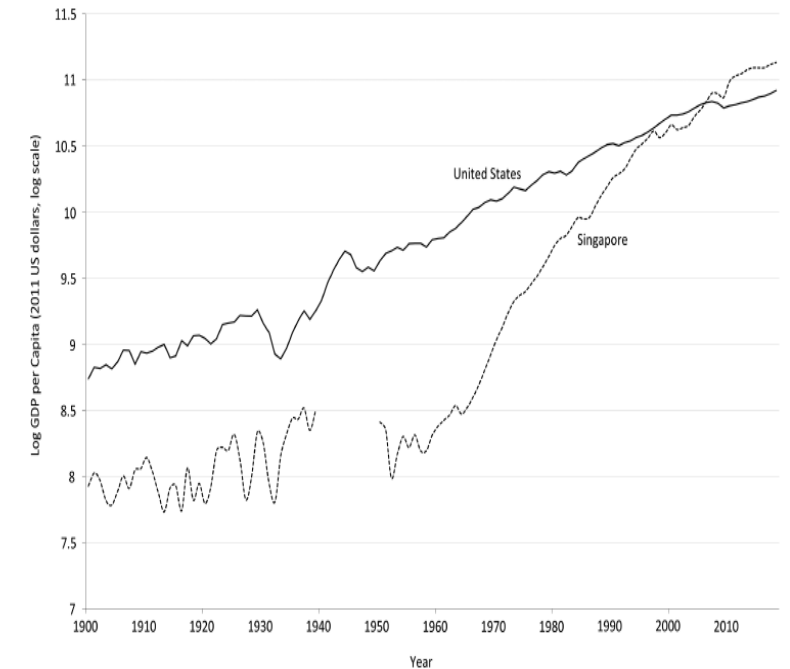


FIGURE 0.1 Real per capita GDP in the United States and Singapore, 1900–2018. Source: Maddison Project Database, version 2018. Bolt, Jutta, Robert Inklaar, Herman de Jong and Jan Luiten van Zanden (2018), “Rebasing ‘Maddison’: new income comparisons and the shape of long-run economic development”, Maddison Project Working Paper, nr.10. Updated using Maddison Project Database 2020.

Bolstering our comparative advantage

- **Comparative advantage** is a country's ability to produce a good at lower cost, *relative* to other goods, compared to another country.
- Absolute advantage is neither necessary nor sufficient for a country to be able to export a good.
- The *sources* of a country's comparative advantage are 'dynamic' and can be bolstered or strengthened.

Institutional quality

- Empirical evidence shows that the quality of a country's law-enforcement institutions has an impact on comparative advantage and trade flows.
- Since, as a practical matter, it is difficult or impossible to write contracts that can cover every possible contingency, businesses and consumers operate in a world of *incomplete contracts*.
- When contracts are incomplete, countries with good legal systems enjoy a cost advantage in sectors in which *relationship-specific investments* are important.
- The rise of global value chains, in which firms use foreign parts and components in the production process, strengthens Singapore's comparative advantage.

Human capital and arrival of general purpose technology

- A general purpose technology describes an invention or method of production that has the *potential for pervasive use* in a whole range of applications.
- Early examples include electrification and information technology. Now, digitalization and artificial intelligence.
- As adoption requires firms to learn how to use these new technologies, the learning process can initially lead to productivity growth slowdown.
- A benefit of an increase in education or a higher stock of human capital is the *increased ability to cope with novelties*.
- Singapore's investment in SkillsFuture to facilitate learning through life strengthens our comparative advantage in riding on the new wave of general purpose technology.

Strengthening innovative culture

- As the *distance to frontier narrows*, strengthening a culture of innovation becomes paramount as we move from imitation to innovation.
- Schools play an important role in providing students the opportunities to learn and the inspiration to become future innovators.
- The “home market” effect can be harnessed to develop new or better products to first sell domestically, and then regionally and globally.
- When workers across the whole economy find their work meaningful and are ready to think constantly about how to do their work better in novel ways, the result can be higher job satisfaction and a boost to aggregate productivity growth.