

Making the most of globalisation



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■ *Globalisation has its benefits and costs. What are some of the policies implemented by the Singapore Government to mitigate the negative impacts of globalisation and reap its benefits to the fullest?*

GLOBALISATION refers to an ongoing process of economic and social integration of economies around the world. The key drivers of globalisation are trade and the movement of capital and people.

Since independence, Singapore has effectively used the drivers of globalisation to develop its economy and integrate itself to the global marketplace. By attracting foreign direct investments, opening up to immigrants to augment the domestic population and adopting an export-driven economic strategy, it was able to achieve robust and sustained economic growth.

The economic and social benefits of globalisation are very clear in terms of higher living standards, greater diffusion of new technologies, a globally competitive education system, more cultural exchanges and greater opportunities for Singaporeans in the global economy.

But since the Asian crisis of 1997 to 1998, new economic and social challenges have emerged as well. Globalisation has increased the pace of industrial development in the region. Increasingly, Singapore has been pushed into higher value-added activities in both manufacturing and services to remain competitive. Attracting multinational corporations (MNCs), although still relevant, is also more challenging as MNCs are becoming more footloose.

The pace of industrialisation is also in-

creasing the need for a globally competitive workforce. Given that the pace of industrialisation is faster than the rate of accumulation of human capital from the polytechnics and universities, there is a "skills gap" with demand for new skills outpacing the supply of workers with those skills. Thus the economy finds itself relying on skilled foreign workers to fill the "skills gap". The increasing demand for skilled workers also tends to widen the income of skilled workers relative to that of unskilled workers.

The vulnerability of Singapore to external shocks has also increased. Over the past decade, since the Asian crisis, Singapore has been exposed to several economic shocks including the Sept 11 terrorist attacks, Sars, the dot.com bust and the recent global financial crisis. Each shock exposed the vulnerability of the economy and increased the income gap.

Skilled workers are more mobile and hence have greater ability to absorb the shock financially. External shocks tend to benefit skilled workers and firms at the expense of unskilled workers.

Given that Singapore is a small, open economy, the benefits of globalisation still outweigh the costs. There are dynamic gains from globalisation as world trade and global production networks create unlimited opportunities for Singaporeans and domestic firms.

However, to fully benefit from the openness of its economy, Singapore needs to develop its own indigenous technology and local multinational corporations. Local technology and domestic MNCs can create greater value-add for the economy and provide greater links to global production networks.

Productivity growth and a flexible labour market are the other key ingredients to benefit from a globalised economy.

The Government adopted the flexible and performance-based wage system in 2004. This is expected to provide greater flexibility in the labour market to ride external shocks, and at the same time reward deserving workers.

The Singapore Workfare Development Agency was set up in 2003 to provide training and assistance to less skilled workers. And in 2007, the Government announced the Workfare Income Supplementation (WIS) programme to supplement the wages and augment the Central Provident Fund savings of low-skilled older workers.

Currently, training programmes are targeted at low-skilled and less educated workers. In a globalised environment, the economy needs broad-based training schemes that encourage re-tooling of the local population throughout their working life.

One way this could be encouraged is with a portable individual training fund that could be jointly accumulated and administered by the Government and the individual. Such a fund would allow individuals to decide on their own career development and the types of skills they would need to remain relevant in the globalised labour market.

Greater social support like Workfare would be needed for some segments of the local population who are especially vulnerable in a globalised economy. As the pace of globalisation intensifies, the vulnerability of these segments will increase and the income gap is likely to widen. In this case, WIS might not be sufficient to supplement the stagnating income of the vulnerable.

In addition to increasing the WIS payouts, the government could also provide greater incentives to mobilise private savings of low-income households for wealth creation. The government could consider various risk-free financial instruments such as government bonds for the low-income, which could smooth out their income fluctuations during the business cycles.

The key challenge is to create more inclusive growth and greater wealth creation for the vulnerable population.

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