

**ECONOMIC WATCH**

# Strategies for the future



BY BASANT K. KAPUR

**W**ITH the Singapore economy facing major challenges, the recently announced Economic Strategies Committee clearly has its work cut out. Presumably, its focus will be on longer-term strategies, the current downturn having been significantly responded to by counter-cyclical measures such as fiscal stimuli. I suggest here some issues the committee might consider – some new, some previously raised but still unresolved.

First, research and development (R&D) is playing a growing role in the economic prospects of countries. The experience of relatively recent arrivals on the innovation scene – South Korea, Taiwan, China and India, among them – suggests that R&D usually yields best results when it is closely associated with the production experience of the countries or companies concerned.

Consider, for example, South Korea's Samsung Group: As World Bank economist Shahid Yusuf pointed out in 2003: "Within a decade of launching its first memory chip (in the mid-1980s), Korea's Samsung had become the world leader in flash and memory chip production... (It) capitalised on (its) lead in digital technology to become (a force) in the markets for flat-panel displays and digital mobile telephones."

Indeed, Samsung now innovates in and produces a remarkably wide range of consumer products. Samsung Electronics alone has 42 R&D centres with about 26,000 employees, and each year it in-

vests at least 9 per cent of its sales revenues in R&D activities. According to a company website, it registered over 17,000 patents in 2006, and its more than 2,400 patents in the United States were the second-most of any company.

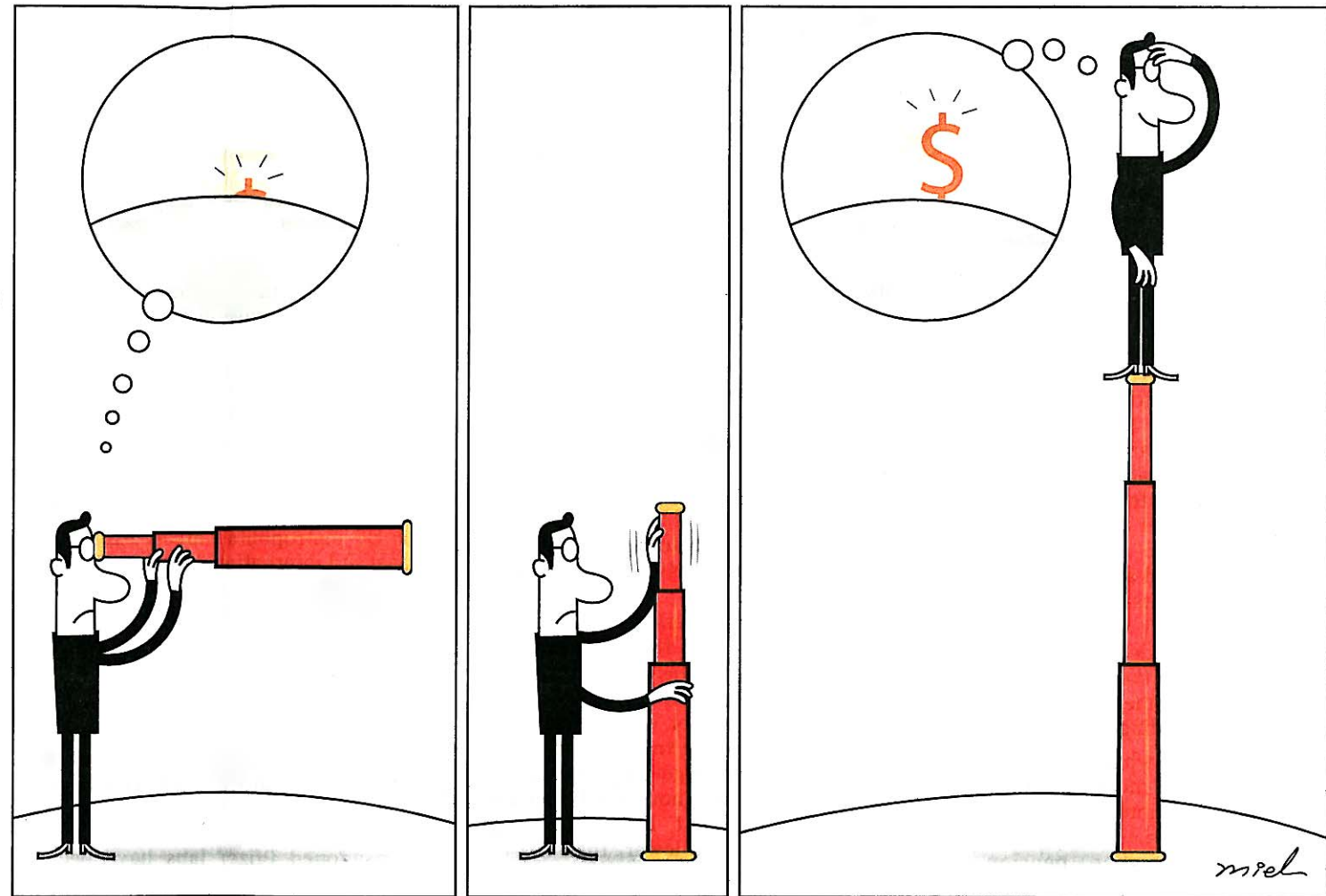
R&D also played a major role in the development of Taiwan's semiconductor industry, with the impetus coming initially from government research laboratories, but now from leading firms within the industry. While much of Taiwan's desktop and notebook production occurs under contract for companies such as HP, Dell, and Apple, its home-grown companies such as Acer and Asus also enjoy significant market shares.

In recent years, major US and Japanese firms have opened R&D centres in Taiwan to take advantage of its talent pool, research infrastructure and proximity to customers and suppliers. A similar pattern may be observed in China and India.

With the exception of Creative Technologies, Singapore's R&D achievements appear to have been largely incremental in nature – although the increments can have a cumulative effect, as in biotechnology – with no other home-grown innovation-based multinational such as Samsung or Acer having emerged as yet.

This raises our first issue: While recognising that the Agency for Science, Technology And Research and other governmental R&D initiatives do seek to promote closer relations with industry, can more be done to foster innovation-related enterprise? Are there lessons we can learn from South Korea and Taiwan?

In a 2007 study, the Economist Intelligence Unit observed: "Top-down government plans for fostering innovation do not automatically lead to a strong innovation performance." Perhaps there is scope for a more "organic" relationship between our R&D and production ecosystems.



Two other related issues I wish to highlight are ones on which debate continues. With the prospect of slower growth in Western economies, Singapore will have to actively pursue other markets in emerging economies as well as domestically.

The argument for greater reliance on our domestic market has been criticised on the grounds that it is too small to support the entire range of our high-tech and other industries. However, this criticism appears to rest on an extreme extrapolation of the argument.

No economist worth his salt would argue that Singapore's domestic market should provide 100 per cent of the demand for its products. Instead, the argument is that domestic consumption's share of Singapore's gross domestic product (GDP) – which has been falling over the years, and is now less than 40 per cent – is much too low. By contrast, the figure for Hong Kong is more than 60 per cent.

If Singapore's figure could move closer to Hong Kong's, domestic consumption would be a stronger pillar of our economy

– and a more stable one. It would also provide more scope for domestic enterprises such as BreadTalk, Sakae Sushi and Charles & Keith to arise and develop, first by serving a larger home market, and then expanding abroad. These may not be high-tech companies, but they serve market needs and generate employment and profits, which are what ultimately count.

In their book, *The Singapore Economy: An Econometric Perspective*, economists Tilak Abeysinghe and Choy Keen Meng pointed out that a significant factor behind the declining consumption-GDP ratio has been rising housing prices. In an article in these pages in May last year, Professor Abeysinghe and research fellow Gu Jiaying pointed out that while average HDB resale-flat affordability has been stable at about 20 per cent to 22 per cent of average lifetime household income since 2001, the comparable figure for private property since 1992 has been around 100 per cent – an extraordinarily high figure. To the extent that many HDB occupants aspire to upgrade to private housing, they will necessarily have to depress

their consumption levels to save as much as possible.

This brings me to the third issue: Can the Ministry of National Development pursue a more proactive role in seeking to influence private property prices in Singapore, say, through an appropriate increase in the rate of release of land sites for private-property development?

Moderation or a gradual lowering of property prices in the longer term will help to boost our consumption-GDP ratio. It might also have other benefits: For example, by reducing the pressure on married women to work full time so as to afford expensive housing, it might help to boost our fertility rate.

To conclude, given the increasingly competitive nature of the global economic environment, we should identify new economic approaches, and jettison old presumptions that are no longer relevant. If changes are needed, the sooner they are considered and implemented, the better.

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