

Catholic Junior College

H1 and H2 Economics

THE SINGAPORE ECONOMY

UNIT SUMMARY

This set of lecture notes actively investigates the Singapore Economy.

Here, we look at the situation of Singapore and attempt to apply the theories, policies learnt earlier. We will also see the limitations faced by Singapore and look at some ways the government attempts to solve the problems. This is where theory meets reality and is useful for you in learning how to apply content knowledge to real world situations, as well as pick up contextual knowledge of the Singapore economy.

CONTENT:

- 1 INTRODUCTION TO THE SINGAPORE ECONOMY**
 - 1.1 Brief Fact Sheet of the Singapore Economy
 - 1.2 Competitiveness of the Economy
 - 1.3 Economic Growth of the Economy
 - 1.4 Characteristics & Constraints of Singapore
- 2 SINGAPORE MACROECONOMIC GOALS & POLICIES**
 - 2.1 Macroeconomic goals of the Singapore Government
 - 2.2 Policies adopted by the Singapore Government
- 3 COVID-19 CRISIS AND SINGAPORE GOVERNMENT RESPONSES**
- 4 GLOBAL FINANCIAL CRISIS AND SINGAPORE GOVERNMENT RESPONSES**
- 5 EVALUATION OF POLICY RESPONSES TO RECESSIONS**
- 6 CURRENT ECONOMIC REALITIES & FUTURE DEVELOPMENT**
 - 6.1 Vulnerability to external shocks and global competition
 - 6.2 Unemployment and the Greying Population
 - 6.3 Productivity and Foreign Labour Policies
 - 6.4 Income inequality and inequity concerns
 - 6.5 Environmental sustainability and concerns
 - 6.6 Recent Notable Policies
 - 6.7 Future Development

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1. INTRODUCTION TO THE SINGAPORE ECONOMY

1.1 Brief Fact Sheet of the Singapore Economy

(Figures from Yearbook of Statistics Singapore, 2020)

- » Small territorial size of only 719.1 square kilometers
- » Total Population of 5.7 million, of which about 4 million are residents (citizens + PRs)¹.
- » High population density – 7804 people per square kilometer
- » Limited domestic market

1.2 Competitiveness of the Economy

- Due to its **small** territorial size and limited domestic market, Singapore must be open (outward looking) and specialize in appropriate products and services for export.
- It is important for Singapore to have **competitive advantage** over other countries. The fundamental principle of Singapore's economic philosophy is to maintain international competitiveness and Singapore has constantly ranked high against the world's most competitive nations.
- Competitiveness is defined by the Global Competitiveness Report as the set of institutions, policies and factors that determine the level of productivity of a country².
- Singapore is ranked:
 - » Singapore was ranked 1st in 2019 in global competitiveness by the World Economic Forum's Global Competitiveness Report, slid down to the 5th position in 2021, and climbed back up to 3rd in 2022³.

1.3 Economic Growth and Recession

- Before the Covid-19 pandemic struck the world, the Singapore economy had been growing steadily for several years. This was due to a strong recovery from the 2009 Global Financial Crisis, supportive monetary and fiscal policies, and the government's ongoing efforts to restructure the economy.
- A recession refers to two straight quarters of quarter-on-quarter contraction. This means that the economy experiences falling real GDP for two consecutive quarters.

When COVID-19 struck, Singapore entered a recession soon after. Overall, the economy contracted by 5.4 per cent in 2020⁴, largely contributed by poor export performance and bad investment sentiments attributed to the mass shutdowns imposed in other countries as well as the implementation of the local circuit breaker measures to slow the spread of Covid-19 in Singapore started in April and economic activity in Singapore came to a halt. Moving forward, Singapore's recovery has held up in 2022, with a relatively strong year-end performance despite an expected global slowdown, as many advanced economies may enter a recession in 2023⁷.

¹ www.singstat.gov.sg/modules/infographics/population

² www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

³ <https://www.businesstimes.com.sg/international/global/singapore-climbs-back-3rd-place-5th-global-competitiveness-ranking>

⁴ www.statista.com/statistics/378630/gross-domestic-product-gdp-growth-rate-in-singapore/

⁷ <https://www.bloomberg.com/news/articles/2023-01-03/singapore-s-economy-beats-2022-forecast-with-year-end-boost>

1.4 Characteristics & Constraints of Singapore

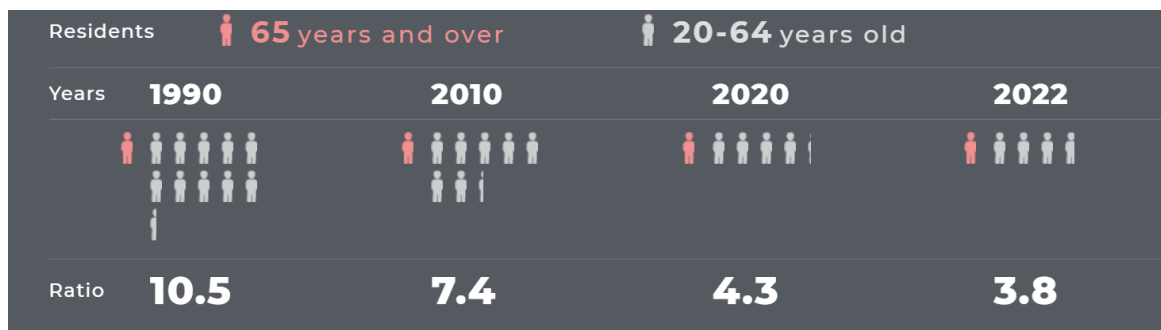
1.4.1 Land as a Scarce Resource

- One of the smallest countries in the world, with high population density
- Scarcity of land can affect growth as it implies:
 - » Lack of space for the expansion of industries
 - » Limited diversity in the economy
 - » Higher cost of rental which will result in higher cost of goods and services leading to a decrease in the overall competitiveness of the economy
 - » Overcrowding, leading to congestion and pollution resulting in a decline of productivity, living standards and health of people.
- However, shortage of land in Singapore is not acutely felt due to the diligent spatial planning by the Singapore government.
- **Land Reclamation Sustainability Concerns - Cost and Political Sensitivities:** While we are trying to overcome land scarcity by reclaiming land, this is a less viable option over time due to complaints from neighboring governments (territorial and environmental concerns) and the shortage of sand for reclamation.

Think about it: How does our difficulty in overcoming land scarcity via land reclamation affect our productive capacity and LRAS?

1.4.2 Labour Resource

- Long-run demographic trends show a declining rate of population growth, as well as an ageing work force. Our old age support ratio has been falling over the years since 1990⁸. Factors contributing to this trend includes falling birth rates and increasing life expectancy, creating a risk of declining population, which would result in serious impediments to potential economic growth.



- The main implication of an aging population, with a declining rate of growth would be a smaller labour force as the rate of retirement is higher than the rate at which younger workers enter workforce. This implies that:
 - » There will be a fall in quantity of labour resources. This will lead to a shrinking labour force that will reduce the productive capacity of the country. LRAS will then fall and lead to negative potential economic growth.

⁸ www.singstat.gov.sg/modules/infographics/old-age-support-ratio

- » A shortage of skilled labour arises as there are insufficient younger workers to take the place of the older generation of workers. The labour supply falls pressurizing the wage rates to increase in the labour market. This might result in an increase in costs of production for businesses, resulting in a fall in the SRAS, and the costs will eventually translate into higher general prices for goods and services. When the goods and services are exported overseas, it would erode Singapore's export competitiveness in the world market, a serious consequence as Singapore is greatly dependent on its exports for income. This has serious repercussions on Singapore's level of economic growth.
- » As compared to the rest of the world, Singapore might be perceived as less attractive as an investment destination by multinational companies as the falling exports competitiveness, and the shrinking workforce would mean increased costs in acquiring talent in Singapore, eroding profitability of their investments. Overtime, if foreign direct investments entering Singapore falls, the productive capacity will eventually shrink as the rate of capital accumulation will be lower than the rate of capital depletion.
- An ageing population also affects production possibilities in other ways due to falling productivity levels and may burden society.
 - » Physically strenuous work cannot be attempted by older workers
 - » Employers would be less than willing to employ older workers due to expectations of greater medical expenditure and higher wages payable
 - » Older workers might be less able to learn/employ new skills/technologies
 - » The government would be politically pressured to support those who failed to accumulate enough savings or who could not save due to prolonged retirements
 - » With virtually no natural resources, Singapore's only resource is labour. As such, labour shortage is indeed a great limitation to our economic growth.

Think about it: How does a smaller and ageing labour force affect our SRAS and LRAS? How would you shift the AS curves? What is the effect of an ageing labour force on structural unemployment and why?

1.4.3 Demand Constraints

- Given that Singapore has a small domestic demand, it has to be open to trade.
- Singapore is dependent on external demand for its survival. Its export-driven strategy has worked remarkably well for many years. However, Singapore needs to remain vigilant with regards to prospective investment opportunities and diversify its export base by gaining access into new markets and by discovering new goods and services required by both developed and developing countries.
- As of 2020, our total trade (exports plus imports) equals almost 3.2 times our GDP, making us one of the most open economies in the world⁹.
- The Covid-19 pandemic has demonstrated clearly how the small and open nature of our economy makes us vulnerable to external shocks. A fall in the external demand for our exports in 2020 due to the contraction of economies around the world which themselves experienced mass shutdowns, has severely affected Singapore's real GDP.

Think about it: Other than the component (X-M), which other components of AD have been affected by the Covid-19 pandemic and why? How would Singapore's balance of trade be affected?

⁹ <https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=SG>

1.4.4 Importance of Foreign Direct Investment & Local Entrepreneurship Constraints

- Multinational Corporations have been the main source of investments in Singapore for many decades. The Singapore government has actively sought FDI by offering tax incentives, building factories, providing communications and ensuring the labour force remains educated and trained. These FDI's have helped promote Singapore's growth and employment by increasing both AD and AS over the years. Furthermore, MNCs not only bring with them capital, technology, experience and access to foreign markets (while bearing the burden of losses), but also the transfer of contacts, skills and technical know-how to our local workforce, which helps to increase our labor productivity.
- In 2018, FDI inflows to Singapore was US\$77 billion, higher than the previous year's figure of US\$62 billion¹⁰.
- However, based on a United Nations report, with the Covid-19 pandemic, global foreign direct investment (FDI) plunged by 49% in the first half of 2020 from the same period a year ago and is on course to fall as much as 40% for the year, driven by fears of a deep recession¹¹. Given Singapore's openness to capital flows, FDI inflows to Singapore has take a big hit as well. In 2020, FDI inflows to Singapore fell by 37 per cent to US\$58 billion.¹²
- The development of local entrepreneurs is also important to help decrease dependence on foreign establishments and broaden our economic base. For example, the Startup SG Founder programme¹³ aims to provide mentorship and start-up capital grants to first-time entrepreneurs with innovative ideas. First-time entrepreneurs will be able to access a higher start-up capital grant of \$50,000 to help them launch their business ideas, part of enhanced measures to boost local start-ups, creating new companies and jobs amid the ongoing coronavirus pandemic.
- In particular, Singapore must ensure that she does not lag behind in technological progress. Local firms engaging in productive R&D are supported with grants so as to promote our technological sector. For example, the Productivity Solutions Grant (PSG) supports companies keen on adopting IT solutions and equipment to enhance business processes¹⁴.

Think about it: How does the Productivity Solutions Grant affect the AD and AS of Singapore? Can it possibly help to improve our balance of trade?

1.4.5 High Savings

- Singapore has one of the highest savings rates in the world primarily due to our CPF scheme. It is a compulsory savings scheme implemented by the Singapore government on working

¹⁰www.edb.gov.sg/en/business-insights/insights/strong-fdi-flows-to-singapore-and-rest-of-s-e-Asia-despite-us-tax-reforms.html

¹¹ www.reuters.com/article/un-investment-int-idUSKBN27C0MC

¹² www.businesstimes.com.sg/government-economy/singapores-fdi-flows-were-down-37-in-2020

¹³www.straitstimes.com/business/economy/bigger-50000-grant-for-first-time-entrepreneurs-among-more-help-for-local-start-ups

¹⁴ www.enterprisesg.gov.sg/financial-assistance/grants/for-local-companies/productivity-solutions-grant

Singaporeans and monthly contributions are made by both the employers and employees. From 1 Jan 2015, the contribution by employees is 20% of their wages and contribution by employers is 17% of their wages for workers below 51 years of age. CPF is one reason why our marginal propensity to save (MPS) is relatively high and our multiplier (k) is low.

- The high saving rates are not restricted to individuals. The Singapore Government also saves a significant amount in the form of fiscal/budget surplus, which get transferred into our budget reserves.
- Singapore usually enjoys yearly budget surpluses, allowing us to accumulate large reserves. For example, in 2017, our budget surplus hit \$9.6 billion for the year¹⁵. Our surpluses have allowed us the ability to use interventionist supply side policies like increased spending on training and infrastructure, as well as transfer payments to reduce income inequality. Our large reserves have also come in handy in mitigating the economic consequences of the coronavirus pandemic. In all, the government has pledged about S\$100 billion across five aid packages to stem the virus and its hit to the economy. This significant increase in government spending, coupled by lower tax revenue due to dampened economic activity, has resulted in Singapore's largest deficit since independence, with an overall fiscal deficit of \$64.9 billion in 2020, which is equivalent to 13.9 percent of GDP.¹⁶.
- Due to the small and open nature of the Singapore economy, there are various implications on the way we conduct our monetary and fiscal policies. But before we begin to explore the development of Singapore's monetary and fiscal policies over the years, let us take a look at the macroeconomic goals and the policies adopted by the Singapore government.

2. SINGAPORE MACROECONOMIC GOALS AND POLICIES

Singapore adopts a **market-based approach** with minimal government intervention where consumers and producers are free to make their own decisions. Hence, firms experience keen competition to capture the market for their goods.

The principles governing Singapore policymakers are summarized in the following points:

- a) **Maintain political and social stability**
- b) **Deregulate markets and restructure industries**
- c) **Create a knowledge-based economy**
- d) **Improve the quality of the workforce**
- e) **Encourage innovation and creativity**
- f) **Review policies in view of global competition**

2.1 Macroeconomic Goals of the Singapore Government

- » The ultimate goal of the Singapore Government is to raise the Standard of Living (SOL). In order to achieve a high SOL, the government focuses on the four macroeconomic goals of:
 - Sustainable and inclusive economic growth
 - Low inflation (internal stability and stable prices)

¹⁵ www.channelnewsasia.com/news/specialreports/budget2018/singapore-s-2017-budget-ends-the-year-with-s-9-6b-surplus-9970426

¹⁶ www.straitstimes.com/singapore/budget-2021-expected-deficit-of-11b-in-2021-with-continued-efforts-to-tide-singapore-over

- Full employment (low unemployment)
- Healthy balance of trade (H2 only)
- » To achieve their objectives, the Singapore government utilises various policy options, such as:
 - a) Monetary Policy – Exchange-rate-centred
 - b) Fiscal Policy
 - c) Supply Side Policy
 - d) Trade Policy

2.2 Policies Adopted by the Singapore Government

The government intervenes to smoothen the business cycle using the two tools of macroeconomic stabilization – monetary and fiscal policy. We also have an open trade policy.

2.2.1 Exchange-rate-centered Monetary Policy in Singapore

- **Monetary policy in Singapore is centered on the *exchange rate* rather than interest rate.**
 - » The MAS manages the S\$ exchange rate against a trade-weighted basket of currencies of Singapore's major trading partners and competitors.
 - » It maintains the trade-weighted exchange rate broadly within an undisclosed target band.
 - » In Singapore, the MAS adjusts the S\$ exchange rate within a predetermined band so as to maintain price stability and macroeconomic stability to achieve sustained economic growth. In a recession, the central bank depreciates our currency to encourage exports and counter deflationary pressure; while during a boom, the currency is appreciated to fight inflation and lower exports thereby cooling the economy.
 - » It also intervenes in the foreign exchange market to prevent excessive fluctuations in the S\$ exchange rate.

- **Why focus on the exchange rate?**

Reasons

- » Many of the consumer goods that we enjoy in Singapore are imported. Increase in import prices will have a huge impact on our cost of living and domestic inflation rate.
- » Our exports use a lot of imported factor inputs, i.e. much of what we export is produced from imported parts. Prices of import thus have a huge bearing on the cost of production which affects the SRAS, export competitiveness and the balance of trade.
- » Export revenue takes up a large share of AD. MAS, through the exchange rate policy, is able to adjust export prices in foreign currency and therefore export revenue to achieve macroeconomic stabilisation.
- » As a financial centre, there is little restriction on capital flows into and out of Singapore. As a result, small changes in the difference between domestic and foreign interest rates can lead to large and quick movements of short-term capital ("hot money"), destabilising the exchange rate. As a solution, we allow our interest rate to move in tandem with the rest of the world so as to maintain a fixed interest rate parity.
- **How does exchange rate based contractionary monetary policy work to solve inflation?**
 - » Singapore, being a small and open economy, imports a large extent of its necessities (food and raw materials (oil which is necessary for all production processes)). Thus it is more susceptible to imported inflation.

- » An appreciation of S\$ would cause the prices of imported goods and raw materials to be relatively cheaper in domestic currency. This reduces the cost of production of firms in Spore that make use of these imported inputs. SRAS increases and this can be depicted by a rightward shift in the SRAS, resulting in a fall in GPL, hence dampening imported inflation.
- » With an appreciation of S\$, the domestically produced goods for exports become relatively more expensive in foreign currencies. As such, it loses its export price competitiveness in the international market. Given available substitutes for S'pore exports in the world market, the demand for Singapore exports is likely to be very responsive to changes in price. Thus an increase in export prices will cause a more than proportionate fall in quantity demanded for exports, resulting in a fall in total export revenue collected. Assuming that the sum of price elasticity of demand for exports and imports is greater than 1, an appreciation of S\$ will then lead to a fall in the value of net exports. Thus, a stronger S\$ can help to reduce the AD in Singapore, ceteris paribus, easing demand-pull inflationary pressure due to rising external demand.

▪ **How does Exchange Rate Based Expansionary Monetary Policy work in a recession?**

MAS can either use a depreciation of S\$ or zero-appreciation of the exchange rate to increase the AD of the country, raise the real national income and help to lift the economy out of a recession.

2.2.2. Fiscal Policy in Singapore

On the other hand, fiscal policy has a more direct impact on the economy. By increasing G (government expenditure) or lowering T (taxes), we will be able to increase consumption and investments and therefore AD. Thus, the government can create demand when private demand is weak.

- **Given the nature of Singapore economy, the size of multiplier is small as the marginal propensity to withdraw is high. As such, the focus of fiscal policy in Singapore is on the supply side and long-term development of the economy. However, in times of crisis, some pump priming** (fiscal policy with the intention of stimulating the economy through AD) ***may take place.***
- During the Covid-19 pandemic, the Singapore government unleashed a series of stimulus packages to support the economy in this time of unprecedented crisis. Below are two examples of transfer payments which increase the C and therefore the AD.
 - » Covid-19 Support Grant: Local employees who have lost their jobs, gone on involuntary non-pay leave or experienced a 30% reduction in their salaries can receive up to \$800 a month with job and training support¹⁷.
 - » Self-employed Persons (SEP) Income Relief Scheme: Eligible Singaporean SEPs received 3 quarterly cash payouts of \$3,000 each in May, Jul, and Oct 2020
- **In the long run, fiscal policy in Singapore has a supply-side bias as it aims to support the enhancement of supply-side conditions.** This means building up world-class infrastructure, enhancing capabilities, investing in R&D, allowing for markets to work unimpeded thus establishing a pro-business environment for the private sector to flourish.
- Due to the open nature of Singapore's economy and our small multiplier, the use of fiscal policy as a demand management policy to regulate the level of national output and employment has limited effectiveness. Instead, Singapore's fiscal policy mainly supports economic growth in the long run by

¹⁷ www.gov.sg/article/jobsgohere-covid-support

promoting macroeconomic stability through fiscal prudence ('living within our means') and by enhancing supply-side conditions by investing in infrastructure, education, research and development.

- In many past fiscal budgets, the government ran substantial fiscal surpluses that contributed to Singapore's reserves. These reserves can be used to run deficits to cushion the effects of recessions or shocks by subsidising retraining efforts to reduce unemployment and providing subsidies for businesses to tide through the difficult times. For example, in 2009, the government had to dip into the reserves (\$4.9 billion) during the Global Financial Crisis.¹⁸ In 2011, the government returned the money to the reserves.
- Over the medium term, the Singapore aims for a balanced budget. Fiscal policy can play a counter-cyclical role by accumulating surpluses in years of good economic growth and adopting a contractionary stance to rein in inflationary pressures. In addition, the government must be prepared to run into budget deficits during economic downturns by adopting an expansionary stance to provide support to the economy.
- Fiscal policy is increasingly also ***serving a purpose in promoting inclusive growth, thus preserving social cohesion and welfare***. This can be done by enhancing the progressive income tax rate and by giving fiscal transfer to the lower income groups. For example, marginal tax rate of income above \$320,000 has been increased from 20% to 22% in year 2017. Also, means testing for healthcare in Singapore helps to target subsidies at the lower income group. Such an environment also helps create a suitable environment for FDI.

2.2.3 Singapore's Supply-Side Policy

- Supply-side policy is integral to sustain Singapore's economic growth. It focuses on developing infrastructure, human capital and technologies so as to sustain growth, create better jobs in every vocation and enable Singaporeans to earn better incomes.
- Due to Singapore's focus on developing higher value, knowledge-intensive industries, a key goal is to ensure that the workforce has the ability to support such activities. Good jobs increasingly tend to be knowledge-intensive, and one of Singapore's areas of focus going forward will be continuous education, training, and re-training – to equip skilled workers with new capabilities so that they can better adapt to changes to the economic landscape.
- Recent supply-side policy measures include:
 - » Productivity Solutions Grant: Support up to 80 per cent of the cost of eligible technological solutions to improve productivity¹⁹, an increase from 70% before.
 - » SG United Jobs and Skills Package: Increases capacity of training courses significantly and provides monetary allowance of up to S\$1,200 per month throughout the duration. The programme comprises certifiable courses delivered by Continuing Education and Training (CET) Centres, including Institutes of Higher Learning.²⁰
- Over the years, the connectivity provided by Changi Airport and the ports have also improved, allowing for an easier flow of goods and services. Also, the government is building the North-

¹⁸ www.straitstimes.com/singapore/reserves-govt-will-not-change-stance-on-dipping-into-reserves

¹⁹ www.enterprisesg.gov.sg/campaigns/supplementary-budget-2020

²⁰ www.ssg-wsg.gov.sg/sgunitedjobsandskills.html/

South Corridor Viaduct which will better connect the Northern and Central parts of Singapore by road²¹. Furthermore, Singapore's MRT train system has also expanded tremendously in recent years, with the building of the Downtown line as well as the Thomson – East Coast Line which will be opening up in stages until the year 2024²². All these contribute to an increase in the quantity and quality of capital in the country and also helps to attract foreign firms as productivity increases with better transportation.

Think about it: How do the above measures affect the LRAS and SRAS?

- Note that some of our policies to improve equity also have supply-side effects. For example, the Progressive Wage Model (PWM) that increases salaries of workers in various industries such as, cleaning, security and landscape sectors are also tied to productivity increases, such that salaries of workers are increased if they go through skills upgrading and productivity improvements.

1.2.4 Singapore's Trade Policy (for H2 only)

- Singapore's trade policy objective is to promote a free, open, and stable multilateral trading system. Without a sizeable domestic market, Singapore is by necessity outward oriented.
- Singapore has actively negotiated and signed Free Trade Agreements with many other countries. Currently, 25 regional and bilateral FTAs are in place²³. Some examples are Regional Comprehensive Economic Partnership (RCEP) among 15 Asia-Pacific nations, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), European Union-Singapore (EUSFTA), ASEAN, ASEAN-China, ASEAN-India (these last 3 are signed as part of ASEAN) and individually with USA, Korea, Japan, Australia, India.
- FTAs have three main benefits to Singapore and its local companies:
 - **Benefits for trade in goods:** FTAs remove tariffs from our exports, making them more competitive in the global landscape. FTAs also allow for freer flow of goods by giving economies involved in the agreement, preferred access to each other's markets. Beyond import duties, FTAs also allow for increased export quotas. This would thus give a greater advantage to exporters from member countries.
 - **Benefits for trade in services:** Unlike trade in goods whereby benefits can be calculated through tariff savings, trade in services focuses on the trading environment. FTAs seek to safeguard market access and ensure conducive conditions for service suppliers to thrive in. For example, DBS Bank and UOB Bank have established their presence in India, making it easier for Singapore companies to access financial services when doing business there as a result of the India-Singapore Comprehensive Economic Cooperation Agreement. The China-Singapore FTA also permits Singapore shipping and ship management companies to take on majority ownership or form wholly-owned foreign enterprises in Shanghai, Guangdong, Tianjin, and Fujian Free Trade Zones
 - **Benefits for Investment:** FTAs seek to make it easier for Singapore investors to invest in our FTA partners. This is achieved by lowering the barriers to entry for investors, providing a

²¹ www.channelnewsasia.com/news/singapore/north-south-corridor-lta-contracts-sungei-seletar-admiralty-12187592

²² www.channelnewsasia.com/news/singapore/tel-thomson-east-coast-line-6-stations-2020-phase-2--12273378

²³ www.mti.gov.sg/Improving-Trade/Free-Trade-Agreements

predictable operating environment through agreed standards of protection for investors. FTAs also serve as an “insurance policy” to deter a trading partner from changing their laws to become more restrictive, even when government regimes change.

3. COVID-19 CRISIS (2020) AND SINGAPORE GOVERNMENT RESPONSE

Some Key Policy Responses:

- Supporting workers and livelihoods
 - » **Job Support Scheme**²⁴: The government co-funded the first \$4,600 of gross monthly wages to each local employee for ten months, with a level of co-funding between 25% to 75%, depending on the severity of the effects of the Covid-19 crisis on the industry. In addition, wage support for the months of April and May 2020 was topped up to 75% for all sectors to support firms during the ‘circuit breaker’ period. This reduces the costs of production for firms and therefore increases the SRAS of the economy.
 - » **Wage Credit Scheme**²⁵: The government co-funding ratios for wage increases in 2019 and 2020 were raised to 20% and 15% respectively. The qualifying gross wage ceiling was also raised to \$5000 for both years. Similar to above, this also reduces the costs of production for firms and therefore increases the SRAS of the economy.
 - » **Covid-19 Support Grant**²⁶: This grant was introduced to help Singaporeans and permanent residents who are unemployed, placed on involuntary no-pay leave or who have suffered significant income loss because of the Covid-19 economic impact. It provides up to S\$800 per month for three months to successful applicants. This is considered a transfer payment that increases the C and therefore the AD of the economy.
 - » **SGUnited Jobs and Traineeships**²⁷: About 10,000 jobs available over the next year, to facilitate employment for jobseekers. Supported employers in providing traineeships to fresh graduates entering the labour force, to help boost employability for new graduates.
 - » **SG United Skills**: Provided \$1200 per month to those undergoing skills upgrading for 6 to 12 months to cover basic expenses²⁸. This is a transfer payment that increases the C and AD of the economy. However, since it helps to support training, the quality of labour will improve and the LRAS will rise.
 - » **SkillsFuture Credit**: The government allowed for the advance use of SkillsFuture Credit top-ups for select courses. The effects of the Skills Future Credit top-ups are the same as for SG United Skills.
- Supporting Self-employed Persons (SEP)²⁹
 - » **SEP Income Relief Scheme**: Eligible Singaporean SEPs received 3 quarterly cash payouts of \$3,000 each in May, Jul, and Oct 2020
 - » **SEP Training Support Scheme**: This was to be extended till end-2020 with training allowance enhanced to \$10/hour.

²⁴ www.singaporebudget.gov.sg/budget_2020/budget-measures/stabilisation-and-support-package

²⁵ https://www.singaporebudget.gov.sg/budget_2020/budget-measures/stabilisation-and-support-package

²⁶ www.channelnewsasia.com/news/singapore/covid-19-support-grant-revised-criteria-extended-applications-13133578

²⁷ <https://www.wsg.gov.sg/SGUnitedTraineeships-Trainees.html>

²⁸ www.singaporebudget.gov.sg/budget_2020/fortitude-budget/fortitude-budget-measures/fortitude-budget-booklet-eng

²⁹ www.singaporebudget.gov.sg/docs/default-source/budget_2020/download/pdf/fy2020_supplementary_audience_centric_Infographic.pdf

- » The above are all transfer payments that increase the C and the AD.
- Supporting Businesses
 - » **Cash flow and credit support for employers:** To help companies with cash flow, a corporate income tax rebate of 25% of tax payable, capped at \$15000 per company, was granted. As I rises, both AD and LRAS increase. Property tax rebates were introduced and laws were implemented to ensure property owners pass on Property Tax rebate to tenants. Rental waivers were also introduced. These rebates and waivers reduce the costs of production for firms and increase the SRAS. The SRAS curve shifts down. There was the implementation of the Enterprise Financing Scheme where the SME Working Capital Loan was available to all SMEs to help them with their working capital needs. The government raised the maximum loan quantum to \$1 million³⁰. This measure to support businesses raises the I and therefore the AD and LRAS too.
 - » **Digital transformation and innovation:** Raised maximum support levels for Productivity Solutions Grant and Enterprise Development Grant to 80% and 90% respectively, till end-2020. Stallholders in hawker centres, wet markets and coffeeshops were encouraged to adopt e-payments as those who agreed to do so were given a bonus of \$300 a month over 5 months. In order to help businesses digitalise, there was also an up to \$10,000 payout given to them to use digital solutions such as Paynow Corporate and e-invoicing³¹. All these efforts make it more convenient for the consumers when purchasing items, thus increasing the C and the AD. At the same time, as technology improves, the LRAS rises.
 - » Extend the **Enhanced Training Support scheme** for firms intending to send their workers for training, comprising higher course fee subsidies and absentee payroll support, to more sectors and till end-2020³². The resulting improvement in the quality of labour increases the LRAS.
- Supporting Families³³
 - » In 2020, eligible Singaporeans each received \$900, \$600 or \$300 cash payments in the year
 - » Parents with at least one Singaporean child aged 20 and below in 2020 each received an extra \$300.
 - » All Singaporeans aged 50 and above in 2020 each received \$100 in cash instead of PASSION Card Top-up
 - » Singaporeans living in 1-room and 2-room HDB flats will receive \$300 in Grocery Vouchers in 2020, and \$100 in 2021
 - » Enhanced Workfare Special Payment to \$3,000 in cash in 2020, for Singaporeans who received Workfare payments for work done in 2019
 - » Double the grant to Self-Help Groups to \$20m over 2020 and 2021, and increase the grant to Community Development Councils to \$75m in 2020
 - » The above are all transfer payments that increase the C and therefore the AD of the country.

³⁰ <https://www.imda.gov.sg/disg/Programmes/2019/10/Enterprise-Financing-Scheme---SME-Working-Capital-Loan>

³¹ www.imda.gov.sg/programme-listing/smes-go-digital/Digital-Resilience-Bonus

³² https://www.ssg.gov.sg/ETSP_EnhancedAP.html

³³ www.singaporebudget.gov.sg/docs/default-source/budget_2020/download/pdf/fy2020_supplementary_audience_centric_Infographic.pdf

4. GLOBAL FINANCIAL CRISIS (2007) AND SINGAPORE GOVERNMENT RESPONSES

This section will summarize the Global Financial Crisis impact on Singapore and the policy responses. It is good to understand the issues and policy response undertaken by the government to gain a greater insight and understanding behind the thinking of policymakers. Please refer to Appendix 2 for the other economic crises that happened before this.

- The Global Financial Crisis of 2007–2009 turned out to be one of Singapore's worst economic downturns since the Great Depression in the 1930s. As a result of the crisis, in the second quarter of 2009, Singapore experienced its biggest output decline in 20 years.
- As a country with one of the highest trade to GDP ratios in the world, Singapore felt the impact of the global recession primarily through the trade channel with non-oil domestic exports falling by close to 30%.
- A massive countercyclical fiscal stimulus released in Budget 2009 (billed as the S\$20.5 billion 2009 Resilience Package or approximately 6% of GDP in 2007) and monetary easing where there was zero percent appreciation of the S\$, were launched to ensure strong economic fundamentals and labour market flexibility.
- The key elements of the Singapore Budget 2009:
 - » Jobs Credit. Companies will receive a 12 per cent cash credit against employee salaries, up to a salary of \$2,500 which is the median income. This is paid out at the end of the quarter for all preceding months that an employee was salaried. This helps to offset the costs of production and increase the SRAS.
 - » Skills Upgrading and Resilience (SPUR), The government will pay 90 per cent of retraining fees, as well as an hourly lost productivity rebate, to keep employment while new job training takes place. Training increases the quality of labour and raises the LRAS.
 - » Workfare Income Supplement (WIS). Supplements the wages of low-income earners – the supplement will be increased by 50 per cent. This is a transfer payment that increases the C and therefore the AD. At the same time, it helps to reduce income inequality and contributes to achieving inclusive growth.
 - » Corporate Tax rate is being reduced from 18% to 17%, with the effective rate estimated at 15%. This raises the I and therefore the AD. At the same time, a rise in I means that there is an increase in the quantity and quality of capital goods, causing the LRAS to increase.
 - » A 20% personal tax rebate will be applied for the current year of assessment. A fall in personal income tax helps to increase the C and therefore the AD.
 - » A 40% property tax rebate will also be applied. This has the effect of lowering the COP for firms, thus raising the SRAS.
 - » S\$4.4b to be spend on infrastructure, health and education improvements. These can be considered supply side policies that raise the LRAS.
- **Limitations of the Policies (Nature of Economy (N) of SUNART):** With the limitations of Fiscal Policy on the Singapore economy, the Singapore Budget 2009 with its Resilience Package cannot significantly boost domestic consumption. Instead, its focus is on keeping employment levels as high as possible while minimizing business failures via reducing the costs of production for firms and raising the SRAS. To provide a more robust recovery measure, the MAS also shifted its monetary policy from a gradual and modest appreciation to a zero appreciation stance.
- A swift recovery followed - Singapore was out of the recession in 2010 with overall unemployment down to 2.1%. The Singapore economy grew at an annual average rate of 6% for the period 2007 to 2011.

5. SINGAPORE'S POLICY RESPONSES TO RECESSIONS

- Being an open and trade-dependent economy, the causes of recession are mostly external. However, as the Singaporean economy is well-regulated and sound measures are taken for economic recovery, our economy usually returns to positive growth.
- Concerning our use of the S\$ exchange rate as a tool of monetary policy, it has and is currently serving its purpose of controlling inflation and encouraging growth and stability in our economy. However, exchange rate has been more of a tool to control inflation and hence a tendency for Singapore to pursue modest and gradual appreciation to reduce cost-push inflation than to pursue depreciation to promote export-price competitiveness. (**Note:** Due to the unprecedented severity of the recession brought about by Covid-19, MAS has allowed for some depreciation to promote export price competitiveness).
- Singapore's fiscal policy is more of a supply-side policy and it is apparent that government spending is usually directed at helping firms reduce cost of production (and increase SRAS) or to build up productive capacity (and increase LRAS) than to increase domestic AD (which is very insignificant in Singapore).
- ***One can argue that any demand-management tool in Singapore would be limited due to its nature as a small and open economy.*** Due to its heavy reliance on external AD, no policy can help Singapore increase AD if there is a global/ regional recession. As such, policy efforts at building up its AS may be a more effective strategy.

6. CURRENT ECONOMIC REALITIES & FUTURE DEVELOPMENT

- Singapore has been well-managed since its independence and the result is a free and competitive economy guided by sound macroeconomic policies. Our reputation for excellence, reliability and honesty is known internationally and hence we should leverage on these traits to carve out a niche for ourselves in Asia.

6.1 Vulnerability to External Shocks and Global Competition

- Given Singapore's openness, it is highly vulnerable to external shocks. When other countries experience an economic crisis, foreign consumers will buy less exports from Singapore, and thus Singapore's AD will fall. The Singapore economy will also be likely to experience a recession or slower economic growth (e.g. 1997 Asian financial crisis, 2009 subprime crisis and the most recent economic consequences of the Covid-19 Pandemic).
- This challenge is compounded by rising global competition, where many emerging economies, like China, India, Malaysia, Vietnam, Indonesia & Thailand, with cheaper costs, are moving into sectors (e.g. oil refinery, port & transshipment, financial & business services, high tech manufacturing, medical tourism) that Singapore is involved in. A loss of export competitiveness will cause a fall in the demand for Singapore's exports and thus our export revenue, affecting AD and our balance of trade as well.

6.2 Unemployment and the Greying Population

- Our government has recognized the significance of structural unemployment in Singapore, coming up with a slew of measures to address this problem. There are some in society who are chronically unemployed or have been rendered unemployable due to mismatch between the skills that they possess and the skills that the job vacancies require. For example, the government has

introduced the SGUnited Mid-Career Pathways Programme to support mid-career individuals who would like to switch careers but need training support³⁴.

- The implications of a greying population are also huge. Firstly, this will reduce the size of our labour force which would then affect our potential growth in the long run. Secondly, the medical subsidies such as those launched for the Pioneer Generation Package may also burden state coffers if these are expected for subsequent generations.

6.3 Productivity and Foreign Labour Policies

- Due to Singapore's lack of resources and partly due to its development strategy, Singapore has relied on a large amount of foreign labour. This in turn has created some social, economic and resource challenges.
- Significantly, this has resulted in depressing our labour productivity rate. Singapore is still below the target of 2-3% productivity growth rate to sustain our economic growth.
- There is a shift in emphasis to achieving GDP growth by improving productivity rather than simply expanding the labour force. This shift to **productivity-driven growth** will require major new investments in the skills, expertise and innovative capabilities of our people and businesses over the next decade. We have significant room to improve productivity in every sector of our economy.
- Singapore has also changed her stance towards foreign labour. Previously, we allowed for a large number of foreigners to come in to increase our aggregate supply by increasing the quantity of labour, which is a factor of production. However, due to economic, social and political reasons, this policy has changed to one that focuses on improving labour productivity while reducing reliance on foreign labour. Singapore has tightened the number of foreign workers allowed in, thus creating challenges for companies to find ways to grow without relying on labour. This tightening of the foreign worker inflow has lowered the supply of lower-skilled workers in Singapore, causing a rise in their wages. This raises the costs of production for firms and therefore reduces the SRAS of the economy.
- With a reduced reliance on foreign labour, there is a greater need to ensure that our local workforce has the ability to manage advanced technology in the workplace for improved productivity. Measures such as the Productivity and Innovation Grant which help to improve productivity levels in the economy become all the more important. These measures tend to have an effect on the LRAS.

6.4 Income Inequality and Inequity Concerns

- Singapore's income inequality has been viewed as an issue, both socially and economically. The Gini coefficient is a measure for income inequality and exists in a range from 0 to 1, with 0 being the most equal. In 2018, the Gini coefficient for Singapore (before government transfers and taxes) was 0.458³⁵. However, it fell to 0.452 in 2019 and after taking into account government transfers and taxes, the Gini coefficient is 0.398³⁶.

³⁴ www.wsg.gov.sg/SGUnited.html?utm_source=SEM_Google&utm_medium=cpc&utm_campaign=Lion&utm_term=covid-19%2Bjob%2Bsupport&utm_content=jobseekers&gclid=CjwKCAiA57D_BRAZEiwAZcfCxQw7y-Ku0-FZW6A9t-l2jMBuUK5GNCOMP6c7CHyTTCjdfvo1EVXinRoCbrCQAvD_BwE

³⁵ www.straitstimes.com/singapore/income-inequality-in-singapore-falls-to-lowest-levels-in-almost-two-decades

³⁶ www.straitstimes.com/singapore/income-inequality-in-singapore-falls-to-lowest-levels-in-almost-two-decades

- Although our Gini Coefficient in 2019 has dropped to the lowest in 2 decades, it is still considered high when compared to other countries. Furthermore, preliminary studies have shown that the economic consequences of the Covid-19 pandemic in Singapore have caused the wage gap to increase, possibly causing the Gini Coefficient to rise as many lower-income earners were badly hit³⁷.
- A high level of income inequality usually also results in inequity because there would be a significant portion of society who cannot afford necessities like food and housing. This, coupled with an aging society, will result in greater pressure for the government to spend more on social and welfare development, adding pressure to the public finance.

Budget measures in the past few years tackle this issue of widening income inequality and inequity, helping to lower our Gini coefficient in recent years. For example, with the Progressive Wage Model, firms in the cleaning industry, for instance, would have to implement the policy. The model dictates the starting wages of the cleaners (currently set at \$1000) which is higher than the median wage of cleaners. The model goes further as firms have to also show how they would train and provide pathways for cleaners to upgrade themselves. This pushes workers to want to better themselves, increase their productivity and hence earning power³⁸. As a result, the cleaners would enjoy rising salaries due to improved productivity. This model is slowly being implemented in security, landscaping industries for now, with other industries looking at how to implement similar models. The advantage is that this allows for industry specific wages and pathways to be set, giving flexibility to the system. This is very different from a minimum wage policy which many other countries have implemented. This is because Progressive Wage Model helps to increase wages of workers through upgrading skills and improving labour productivity. As such, it does not result in higher costs of production by firms.

- In many countries, a minimum wage is used as a means to increase the salaries of the lower income groups. However, problems arise as economic theory tells us that a minimum wage (working like a price floor) will lead to higher unemployment (surplus of labour). Also, by imposing minimum wage, when the increase in workers' wages is not matched by an increase in labour productivity, firms will experience a higher unit labour cost, leading to a higher costs of production. As such, SRAS of the economy will fall.

6.5 Environmental Sustainability and Concerns

- With the depletion of natural resources and global pollution there has been a greater need for economies to maintain an environmentally sustainable development.
- There is also greater emphasis by global players to protect the environment. There were concerns over the aftermath of climate change talks and post-Copenhagen issues on how the Singapore Government could provide sufficient assistance to enhance business capacity, especially in the case of SMEs, in tackling global warming matters. This could mean that Singapore's economic growth might be affected as we need to develop ways to develop in an environmentally sustainable manner.

³⁷ www.businesstimes.com.sg/companies-markets/covid-19-crisis-may-widen-income-gap-in-singapore-dbs

³⁸ <http://www.mof.gov.sg/news-reader/articleid/1082/parentid/59/year/2014?category=Speeches>

- Singapore's approach to sustainability comprises 3 factors: (i) Balancing environmental conservation with economic needs, (ii) a durable and holistic approach to optimise resource use and (iii) International collaboration
- In 2018, **The Sustainable Singapore Blueprint (SSB)** framework for sustainability efforts was shared with targets to be met by 2030. It emphasises five key areas: i) Active and Gracious Community, ii) **Towards a Zero Waste Nation**, iii) **Eco Smart Endearing Towns**, iv) A Leading Green Economy, v) A "Car-Lite" Singapore.

6.6 Recent Notable Policies in Individual Markets

- Recent measures have also been undertaken to maintain stability in Singapore's various markets, notably the property and vehicle markets. Such policies are not the main tools to achieve macroeconomic aims but are often implemented to solve specific issues.

6.6.1 Measures Taken to Maintain a Stable and Sustainable Property Market [Microeconomics: Demand and Supply Analysis]

Controlling the rise of Property Prices before the Covid-19 crisis

- From 2009, housing prices had been on the increasing trend due to speculation, low global interest rates and positive economic sentiments. The government did not want excessive increase in prices of houses due to speculators and wanted to protect consumers from getting into loans they cannot afford. They wanted to pre-empt a property bubble from forming.
- Unlike other countries, Singapore does not control its domestic interest rates and hence cannot increase interest rates to dampen demand for housing. Therefore, it had to use alternative policies to curb rising demand for housing.

a) Additional Buyers Stamp Duty (ABSD) to reduce demand

Stamp duties that are payable when a property is purchased was increased. The duties charged are as follows:

- Singapore Citizens: ABSD will be levied on the second (12%) and subsequent property purchases
- Singapore Permanent Residents (PRs): ABSD will be levied on all purchases. The first purchase will be 5% while second and subsequent purchases will be 15%
- Foreigners: 20% ABSD for any property purchase

As can be seen, these policies mainly targeted property investors (since a second or third property purchase is unlikely to be for residential purposes). At the same time, the higher ABSD imposed on foreigners recognized that some of the speculative demand for property came from foreign buyers. This policy limited the overall increase in demand for housing.

b) Lowering Loan-to-value (LTV) limits to reduce demand

In February 2010, the Monetary Authority of Singapore (MAS) lowered the LTV limits for housing loans. This policy was aimed at ensuring that the maximum loan a consumer can take was capped at a percentage of the house value. Hence, homeowners needed to pay a larger down-payment for their homes. This would encourage greater financial prudence among property purchasers

and limits the amount of loan a consumer can take, and hence, curbs the rising demand for housing.

c) Total Debt Servicing Ratio (TDSR) to reduce demand

In 2013, MAS introduced a framework called the TDSR. This policy was targeted at ensuring that consumers and banks were able to calculate the maximum loan a consumer can take subject to his or her own income. This ensured that consumers do not overextend and get themselves into large debts. At the start, this was limited to 60% of their income (that is, the maximum amount a consumer can spend on repaying all their loans was set at 60% of their income). This was also meant to limit the rising demand for housing.

d) Expand public housing and increase supply of land for residential development to increase supply

On the supply side, the government has expanded public housing production and increased the supply of land for residential development under the Government Land Sales (GLS) programme.

Stabilising the property market when the Covid-19 crisis struck

- In 2020, with the Covid-19 crisis, it was highly expected that property prices would fall significantly as that usually occurs during recessions. However, property prices only dipped 1% in the first quarter and rose 0.3% and 0.8% in the second and third quarters respectively³⁹, defying the Covid-19 recession.
- There are other factors that have caused property prices to be stable in 2020 such as extremely low global interest rates, given that central banks around the world lowered their interest rates to support economic growth in their economies. Therefore, our interest rates also remained low as Singapore does not have an independent interest rate monetary policy but our interest rate rises and falls with the rest of the world. However, the Singapore government also had a part to play in stabilizing the property market. Below are some measures that the government took.

e) Extension or deferment of mortgage payments

As many people suffered a loss in income during the pandemic, some had an issue with paying of their mortgage payments. Those who are not able to make full loan repayments on their property loans could apply to make reduced instalment payments. Alternatively, if needed, they could also apply to defer their mortgage payments for a period of time⁴⁰. This has prevented sellers who cannot pay their loans from panic selling and slashing prices too deeply to sell their houses. This helps to limit the increase in the supply of the property market during the crisis and to support prices.

f) Time extension for completion of projects and selling of properties⁴¹

The government allowed private property developers to extend the time needed to sell all their housing units by up to a total of six months. Providing developers a longer period of time to sell their housing units means that they do not necessarily have to reduce prices significantly in order

³⁹ www.straitstimes.com/business/property/singapore-private-home-prices-rise-by-faster-08-in-q3-rents-dip-05-ura

⁴⁰ www.straitstimes.com/business/loan-repayment-relief-measures-for-individuals-smes-extended-into-2021-mas

⁴¹ www.todayonline.com/singapore/6-month-time-extension-property-developers-homeowners-affected-covid-19

to sell them fast. Also, Singaporean married couples who bought a second residential property will now have one year instead of six months to sell their first residential property in order to get a remission of the Additional Buyer's Stamp Duty. Singapore home owners who buy a second property and need to sell off the first to obtain the ABSD remission would not have to be pressurized to sell off their homes at fire sale prices within a short period of time. This limits the overall increase in supply within the property market and therefore helps to support prices as well.

6.6.2 Measures Taken to Ensure Consumer Price Stability

- As the supply of COEs dwindled and demand for cars remained firm because of income growth and low interest rates, COE prices rose rapidly. This in turn drove up the overall inflation rate and started having spillover effects on the rest of the economy and shaping price expectations. There was also a growing risk that buyers were over-extending themselves by purchasing more expensive cars. As before, the Singapore government had to turn to alternative policies other than interest rates to ensure a stable car market.

Financing Restrictions on Motor Vehicle Loans

In 2013, maximum vehicle loans were capped at 50% to 60% open market value of the vehicle, depending on the value of vehicle. This restricted the amount of loan a consumer can take to purchase a car, hence, reducing the demand for cars.

- The objectives of the policies were to ensure stability in the markets most affected by low interest rates. Above are merely some of the policies Singapore used; you can visit the MAS website⁴² to see the media releases concerning the various policies.

6.7 Future Development

- The Committee on the Future Economy (CFE), convened in January 2016, is recommending seven strategies for the next decade with skills, innovation and productivity the basis for our economic growth and for a broad-based increase in the incomes of our people.
- With changing external environments and significant structural shifts, growth around the world has been subdued. Global value chains are changing and new technologies can supplant entire industries, displacing workers even as new opportunities are created. With growing protectionist policies growing in Europe and the USA, small open economies like Singapore will be especially susceptible. Despite the challenging global environment, CFE says that there are many opportunities for Singapore to innovate, deepen its capabilities, remain connected and stay relevant to the world.
- In the future economy, Singaporeans should have deep skills and be learning throughout one's lifetime; businesses should be innovative and nimble; the city connected and vibrant, continually renewing itself, and the Government coordinated, inclusive and responsive. The seven mutually-reinforcing strategies can be summarized in a few broad areas:
 - i) For Singapore to deepen and diversify its international connections, continue strengthening links with overseas partners and seek opportunities in new markets.
 - ii) Acquire and utilise deep skills needed to stay relevant

⁴² www.mas.gov.sg/regulation/covid-19/supporting-individuals-through-covid-19/easing-cashflow

- iii) Strengthen enterprise capabilities to innovate and scale up
 - iv) Build strong digital capabilities
 - v) Develop a vibrant, connected city of opportunity
 - vi) Develop and implement Industry Transformation Maps
 - vii) Partner one another to enable growth and innovation
- The government must invest ahead in the fundamentals that will drive Singapore's success: the best quality education, advanced skills, research capabilities, and the infrastructure and connectivity of a global city.
 - The government must also ensure that growth remains inclusive, benefiting all members of society, while encouraging a spirit of self-reliance. Like many other countries, we will face the continuing challenge of helping lower-skilled workers to stay employed and improve their wages, in an environment of intense global competition. The best way to do this is for the government to provide strong support for low-wage workers to upskill, and for community programmes to help them raise their aspirations. The Government must also continue to help low-income families by ensuring their children have full education opportunities, in school and beyond.