

Singapore Government **MEDIA RELEASE**

**SPEECH BY MR LIM HNG KIANG, MINISTER FOR TRADE AND INDUSTRY, AT 1ST NUS-MTI
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Introduction

1. Good evening.
2. Tonight we gather to recognize the bright young talent in our midst. I offer my congratulations to Ms Dorcas Low and Mr Koh Wei Ning, the winners of the inaugural MTI Best Thesis Prize and the MTI Book Prize. Their work was chosen out of many students, and I hope their example inspires all of us to think harder and deeper about the challenges and opportunities that Singapore faces.
3. Tonight, I want to talk briefly about some of these challenges and how we are tackling them. Later this evening, we will have a panel discussion, and I encourage you to share your ideas and thoughts with us on how we can do better.

Current Economic outlook

4. I am sure all of you know that economic conditions would be tough going forward. At the beginning of the year, we were slightly more optimistic about how things would pan out in the US, Japan and Europe. But the outlook has become darker. In the US, the slump in housing prices has triggered a deleveraging process, resulting in the complete restructuring of the US financial sector.

5. Unemployment in the US is rising and consumers are tightening their spending drastically. The slowdown in the US economy has spread to Europe and Japan. Both recorded negative growth last quarter.

6. In an interconnected world, what happens in the world's largest economy affects everyone, including Singapore. For the last three years, our economy grew by an average of 7.7%. This year, we expect to grow by around 3%. Many analysts expect next year to be even worse.

7. At the same time, prices have risen. CPI inflation averaged at 6.9% in the first 8 months of this year. This is mostly imported inflation, because of our openness and heavy dependence on imports. Although there are signs that inflationary pressures are easing, global competition for resources as well as geopolitical events may cause prices to spike up again.

8. This backdrop of potential cost pressures amidst slowing growth is a prime example of the challenges that policy makers and economists are now facing. Your economics textbooks will tell you that if the government uses the standard tools to deal with slowing growth, we will push inflation even higher. On the other hand, the tools to deal with inflation will dampen growth even more. How do we deal with this dilemma?

9. To help us in our policy formulation, we have established some clear guiding principles. First, we believe markets and prices work best when allowed to operate freely. Hence, unlike many other countries, we have avoided price controls and subsidies on commodities such as petrol, which distort market forces. Second, we have sought to understand the underlying factors affecting our economy, so that we use our tools most effectively. For example, we recognize that most of our inflation is imported. Hence, we assessed that exchange rate management offered the appropriate response. The Monetary Authority of Singapore took a policy stance that allowed for a modest and gradual appreciation of the Singapore dollar. Without such a policy, inflation would have been even higher. Now with inflation coming down, MAS has shifted to a zero appreciation of the Singapore dollar on a trade weighted basis.

10. But there are tradeoffs to the decisions. Some economists regard monetary tightening as a blunt instrument, especially when the economy is slowing down. Excessive appreciation of the Singapore dollar could hurt our export competitiveness, further dampening economic activity and growth. In our daily work, the government has to constantly balance these tradeoffs, and the answers are seldom neat and clear-cut.

Looking ahead

11. Although the gloomy short term outlook highlights the immediate challenges to our economy, the global economy will eventually recover and we have to be positioned to bounce back. Hence we cannot lose track of longer term issues that could affect our economic competitiveness.

12. One emerging challenge lies in energy. Stronger demand growth, especially in Asia, has raised energy demands and CO2 emissions. Energy markets, if left unregulated, will fail to take into account the negative externalities of energy production and consumption. This is detrimental to the global environment. How can the government step in to regulate energy production without compromising economic growth?

13. Inevitably there are tradeoffs in our energy policy. Ideally we want to achieve a balance between economic competitiveness, environmental sustainability and energy security. This is not an easy feat.

14. As you know, manufacturing is a key pillar in our economy, contributing about a quarter of our GDP. This sector includes energy intensive industries such as petrochemicals and electronics. As these industries continue to grow, their energy demands and their CO2 emissions will increase.

15. Meanwhile, Singapore has limited energy options. Options such as hydro, geothermal and wind power are not available to Singapore. Solar energy, for the moment, is still too costly and takes up too much space. Yet we need diversified energy sources to protect ourselves against price and supply fluctuations, and to ensure continued economic growth.

16. It is in such a context that we have to promote energy efficiency and conservation efforts, introduce competition and contestability in our energy and electricity markets, and build up our energy industry, especially in the areas of trading infrastructure and R&D.

17. These are significant challenges. We are still in uncharted territory, and there is much work to be done. Robust economic analysis can help us to make the most appropriate choices, so that even as our economy continues to grow, it will grow sustainably and in a way that benefits all of us.

Further challenges to sustainable growth

18. Ultimately, what we strive for is not just economic growth for the sake of economic growth. But we want to grow so that Singapore can become a cosmopolitan, vibrant and economically dynamic country that Singaporeans can proudly call home. Let me sketch out three challenges that we will face in this regard.

19. As our economy matures, it will become more and more challenging to sustain our economic growth. Your textbooks will tell you that economic growth depends on capital, labour, land, and total factor productivity (TFP).

20. In Singapore we don't have too much land or labour. We can deepen the capital stock of the economy, but these efforts will face diminishing returns. All we are left with is TFP, which reflects the effect of intangible, but important, factors such as innovation, entrepreneurship, creativity, and technology. In order for our economy to continue growing in the long term, we will need to tap into these factors more and more. The first challenge therefore lies in developing an environment that facilitates and encourages these activities.

21. The second challenge for us over the long term lies in dealing with limited resources such as land. We cannot keep reclaiming land from the sea. Our economists must therefore apply robust cost-

benefit analysis whenever new demands for land come up, especially because these decisions have a long-term impact. The land we allocate for a particular industry cluster or theme park cannot be taken back at short notice. So our economists have to think hard about opportunity costs and not just for the short term, but also over the long term.

22. The third challenge lies in ensuring that the benefits of growth spread to all Singaporeans while mitigating the downside effects of restructuring brought about by globalization and technological change. Our Gini coefficient has been rising since the early 1990s. Greater competitive pressures have inevitably left some low skilled, low wage Singaporeans at a disadvantage.

23. Today, our economists are at the forefront of thinking about how we can help low-skilled and low-wage workers and their families. We have applied a combination of Workfare, direct financial assistance, educational scholarships and skills upgrading. But these tools are not the complete answer. More importantly we need to spur hope in our citizens that they can achieve success through hard work and determination.

24. Even as the world continues to change, we must be guided by the principles that our economy is based on: a pro business environment and strong and stable macro fundamentals. Inevitably, there will be difficult tradeoffs such as the ones I have highlighted above. Our public economists need considerable acumen to recognize and evaluate synergies and spillovers and find the most efficient balance of costs and benefits. Only then will we be able to ensure a balance between competitiveness, diversification and sustainability.

Closing

25. Thus far, I have asked more questions than given answers. That is the challenge before us. As the global environment changes, new answers have to be found for old questions. Meanwhile, new questions pop up. As we look to the future, many of the answers will come from your generation. We look forward to hearing your views and your contributions.

26. On that note, let me turn to our prize winners. Wei Ning is receiving the Book Prize for excellent academic achievement - he has been on the Dean's List for 5 semesters since 2005. His outstanding student leadership includes being the president of the NUS Economic Society in 2006 and representing NUS at the ASEAN Student Leaders' Summit in 2007.

27. Dorcas Low's winning thesis looked at the low demand for annuities in Singapore. Through a survey, she found that retirees preferred to leave bequests and wanted to have greater control over their wealth. Most annuity schemes, however, do not offer such flexibility. She would argue that these features need to be addressed to raise the take up rate. Otherwise, retirees will not voluntarily annuitize their wealth beyond mandatory levels.

28. Dorcas' analysis is a good example of the sort of critical thinking that we need to deal with the challenges I outlined earlier.

29. In closing, I hope that tonight I have motivated some of you to think deeper about the challenges that we face in building a sustainable future for Singapore. I hope you will have an interesting and engaging evening, and I wish you all the best for the year ahead.