ECONOMIC STRATEGIES COMMITTEE (ESC) PRESS CONFERENCE
OPENING REMARKS BY ESC CHAIRMAN, THARMAN SHANMUGARATNAM
1 FEBRUARY 2010, 11.00AM, NATIONAL LIBRARY, THE POD

Thank you for coming. Several of you came early to read the report. We do not have to go through the details of the report. But my colleagues and I will highlight some of the issues that we feel merit emphasis.

Let me first say that the ESC process has been very useful. I would like to thank my fellow members in the committee, plus the many sub-committee members and working group members. Besides the members of these various groups - who totaled 230 - many other individuals, businesses and associations who contributed their views to the report - about 1,100 people contributed views through various channels. I would like to thank them all for contributing to a valuable process.

We have worked on our key recommendations over the last 7 months, since we first met in early July. We decided to come out with our key recommendations early, ahead of the 2010 Budget, and while the economy is still on the recovery. This way, we can reposition ourselves early, starting with this year, for our next phase of growth and development. The ESC has submitted its recommendations to the Government. The Government has accepted the key thrusts of the Report and will spell out its specific responses in the Budget Speech and the Committee of Supply Debate that will take place three weeks from now.

This will be an exceptional decade – a decade that is unusual both for its opportunities and its challenge. Our assessment is that the next five to ten years will provide greater opportunities for growth in the world around us than any of the past decades that we have seen – greater opportunities for companies to grow. But at the same time, we will also see greater constraints on growth than we have had in the past. In particular, because of a slower growing workforce, and over time too because we will run up against the limits of our land. We will also have to use energy more efficiently, diversify our sources of energy and play our role over time as a responsible member of the international community in reducing carbon emissions.

So we will see greater opportunities than before; greater constraints than before. How do we overcome this and ensure that we continue to get good income growth for individual citizens and good business growth? It will require a change in the way we work - how we create value. And it will require that our companies expand overseas to make the most of the opportunities that match their strengths.

This leads us to our central recommendation, which is to grow based on skills, innovation and productivity rather than by expanding our use of resources and especially by expanding employment in every business, every sector year after year.

This is the way in which we can still grow individual workers' incomes. In particular, the focus on productivity, skills, and innovation is the best way we can ensure that those at the lower end of the income ladder can also move up. This is the best way to ensure that growth is inclusive in Singapore.

Next we had to consider how fast we can grow. The key here being how fast we can grow productivity. In the last decade we grew productivity by 1%, which was too low. We had achieved more rapid growth prior to the last decade, but that was when we were at the lower stage of development – less use of technology, and more scope for catch up. We were operating at the lower level of capabilities, so it was easier to achieve rapid productivity growth.

So what can be achieved in the next five to ten years? Few countries at our level of development have achieved productivity growth exceeding 2% per year over a full decade. Some have achieved this for individual sectors - manufacturing, services, financial services, construction - but not for the economy as a whole, and over a full period of a decade - not just a spurt of three to four years.

But we think we can exceed 2% productivity growth on average. We can grow productivity by 2% to 3% per year for the next ten years, thereby taking productivity up to a level that is one third higher than where it is today. This can be achieved because we are capable of a major national effort. We are capable of doing this consistently and in a concerted fashion with everyone playing their part – the Government, the unions, businesses, individuals playing their part. We believe Singapore can achieve this.

What matters to individuals, what matters to the Singaporeans, is really productivity growth. If we can raise productivity, we can raise incomes. We achieved 1% in the last decade, we can achieve 2% to 3% per year in the next decade. It will mean higher real incomes. And in particular, as we raise the skills of those at the lower end of the workforce, we help them move up.

We should aim to get into this virtuous cycle of better skills, better jobs and higher wages and incomes. That is very simply our objective. But there is no short cut to raising skills - no short cut for companies to be able to create value through improved skills and productivity. It takes time. We look at the way the Germans have achieved this, year after year, decade after decade - patiently building up skills, investing now in workers, investing now in new technologies and innovation, not because it yields immediate results but because they know it gives them an unassailable lead several years down the road. They keep building on it. And there are many other examples, like in services and in the construction industry - examples of world leaders in each industry who invest today in order to reap rewards much further down the road. So it requires a perspective that is different from before

- not going for immediate gains, but building up the ability to create value and surpass the competition five years from now.

I want to emphasise two themes that cut across the Report, before my colleagues elaborate on the specific key recommendations.

The **first theme** is this. **What this amounts to is a major investment in our people, – an investment that would require a partnership in the broadest sense between the Government, people and businesses**. The Government will have to provide strong support, both for workers and businesses. But everyone has to play their part. The initiatives will have to take place on the national level, at the sectoral level, at the level of each enterprise, and with each individual citizen. It must be a comprehensive approach to investing in skills, capabilities and expertise.

At the national level, we have an opportunity to develop an outstanding system for continuous education and training - top quality and affordable. This is our next major investment in our people. We already have a very strong education system, and are constantly improving its quality - everything from pre-primary up to the tertiary level, where opportunities are being broadened. Quality being infused year after year. But on top of this, we must move to the next phase – investing in working adults throughout their careers. We have to do this up and down the skills ladder. Every level, every profession, every skill can and must be upgraded.

Singaporeans are known for being clean, competent, thorough, efficient. We must go to the next level where we have mastery of skills and depth of expertise, whatever the job we do. We have to do this in every profession, including our higher pay professions, at the lower end of the skills ladder. So up and down the ladder, this is going to be a major investment in our people.

Companies have to play their role. They have a key responsibility, to invest in their people. There are examples around us - companies in every industry which are investing in their people. I visited one a few weeks ago – Hamilton Sundstrand, in the aerospace industry. They have something they call the Employee Scholar Programme, where any employee can choose to take any course leading to a diploma, a Bachelor degree or a Masters in any field (it need not be aerospace) and the company will sponsor the employee for the course. They started this in 2005, they now have 82 employees who have taken up their scholarships – 23 diplomas, 36 Bachelors, 23 Masters. The company spent $1.7million. Employees are more satisfied, more motivated, and of course are armed with higher skills, higher proficiencies.

Even SMEs can do that. Atlas is one of them. They retail sound systems. They have already supported one senior manager through his MBA at NTU. They are aiming to do the same for another manager. They are also working with WDA and Ngee Ann

Polytechnic to send their front line employees out for Diploma courses. This is an example amongst SMEs.

Every individual too has to take the initiative. Everyone has to be responsible for upgrading their own skills, taking their talents to the maximum, and developing mastery. Not just competence, but mastery of what they are doing. However, employers have to recognise that at the end of the day, productivity is about motivation. You have to reward your people fairly, and reward skills. But you also have to motivate. It is not rocket science but something which all of us observe every day in the workplace. People work better, and work smarter when they think that what they do is important, and they like what they are doing. So motivating our employees is critical, not just investing in the technologies and equipment and the processes.

That is the first theme that I wanted to highlight – that this will amount to a major investment in our people.

The **second theme** has to do with the restructuring of the economy. We cannot grow at the same rate that we achieved in the last decade. We are unlikely to achieve 5% on average, or more than 5% in the next decade. With the slowing labour force growth, even with higher productivity growth of 2 to 3% per year, we think that 3% to 5% GDP growth would be good growth.

But **what this must mean is an increased emphasis on the restructuring of the economy**. There are two reasons for this. First, it is **the way in which we can allow competitive businesses to grow faster**. 3 to 5% growth per year does not mean every business growing by 3% to 5%. It means competitive businesses growing much faster, seizing opportunities. And that will happen if we provide them the room to grow. They must be able to get employees, the land and other resources, so that they can grow. We must therefore let market forces work, so that restructuring takes place and competitive businesses can grow faster. With slower growth of the workforce and 3 to 5% GDP growth per year, less efficient industries and enterprises will either have to upgrade or gradually phase themselves out.

The second reason is that economic restructuring is also the way in which we achieve this leap in productivity, that is, one third higher, ten years from now. If we do not restructure our economy step by step over the next five to ten years – in other words, enabling more efficient and more dynamic industries to grow faster and get more resources than the rest – we will not achieve this leap in productivity. Restructuring across sectors and across enterprises is as important as improvements and innovation within each enterprise, and within industries.

So I want to emphasis those two themes – this is a major opportunity to invest in our people; it is also going to be an opportunity to restructure our economy so as to enable growth.

I will now ask several of my colleagues who have co-chaired the Subcommittees to speak on their key recommendations, starting with Minister Gan Kim Yong, who co-chaired the Subcommittee on Fostering Inclusive Growth.
