Speech by Minister Grace Fu at the 12th Eurasia Business and Economics Society Conference

Distinguished Guests

Ladies and Gentlemen

Forging Ahead in the Global Economy

Introduction

Good morning and a warm welcome to our friends from all over the world. It is my pleasure to join you for this conference today. I would like to share with you my view of the global economy - the developments, the trends, the inherent risks and my perspective on the appropriate political responses to these trends.

Global Economic Outlook - Where We Are Today

2013 has been an eventful year on the global economic front.

Advanced Economies

The advanced economies are showing some signs of recovery. After an 18-month recession, the Eurozone has returned to positive growth. Its fiscal deficit as a proportion of GDP has been declining. While structural issues such as the effectiveness of regulation in the Eurozone occupied much attention, the imbalance in fiscal spending was the obvious elephant in the room. As German Chancellor Angela Merkel has said, 'Europe today accounts for just over 7% of world population, 25% of global GDP and has to finance 50% of global social spending'. The sustainability of social spending in several countries has been called to question.

Balancing the budget was also a hot topic in the US. Although in this case, the common view is that politics was the key risk. The US national debt is high, but at 70%[1] of GDP it is not uncomfortably so. After the dramatic closure of government offices in October last year, the US economic outlook has improved. The two-year budget deal that came into effect last month has reduced the probability of another shutdown. GDP grew by 4.1% in the third quarter of 2013 - the fastest growth since 2011. With this impressive growth, the unwinding of Quantitative Easing (QE) is now the main act in the US. This will impact the global financial system as the effect of QE has found its way to many countries, particularly the emerging markets. The Fed's announcement that it would start scaling back on bond purchases this month has taken some air out of the pressure. QE cannot be sustained indefinitely and the general consensus is that this second risk of imbalance is being addressed by the Fed.

Another advanced economy that has its own mammoth version of QE is Japan. Japan is facing a debt to GDP ratio of about 210%, and this is expected to continue rising. Early on in his administration, Prime Minister Abe fired off two of his arrows which will inject the economy with about 130 trillion yen (1.4 trillion USD) of liquidity in total by the end of this year. While the liquidity has helped to boost confidence, the issues of Japan's long-term competitiveness and growth strategy remain to be addressed. The effects of the third arrow in 'Abenomics' remain to be seen. The wealth accumulated by the Japanese corporations and people has supported the government bonds, but would this imbalance become another major risk?

Emerging Economies

The economic performance for the emerging economies is stronger, fuelled by the growth momentum in Asia, in particular China. Economies in Southeast Asia such as Indonesia, Thailand, Malaysia, Vietnam and the Philippines have reported about 5% to 6%[2] growth on average over the last 2 years.

However, the emerging economies also face risks from imbalances. Most recently, the Chinese central bank had to inject 29 billion RMB (5 billion USD) into the banking system in response to a liquidity crunch. The rapid increase in local government debt has been the focal point of the Chinese Central Government. Easy credit extended to State Owned Enterprises (SOEs) and real estate companies, often linked to SOEs, have been identified as causes of misallocation of financial resources. This has resulted in over-reliance on selected sectors and under-funding of export-oriented Privately Owned Enterprises. The Chinese Government is teetering towards greater discipline of its banks but the underdeveloped inter-bank system is making its task difficult.

Global Trends

Now let me turn to some global trends which will shape the future political and economic landscape.

The **first** trend is income inequality. While China is facing its own set of risks, it is the biggest beneficiary of an inter-connected and export-friendly global economy. Income inequality between countries has narrowed due to the catchup in the economic development of China and India[3], which are the most populous countries. China's GDP per capita grew six-fold, from 2.1K RMB to 12.3K RMB in just two decades, while India's GDP per capita grew close to threefold[4]. This has led to the emergence of a rising global middle class, as the living standards of a vast number of lower and middle-income households in China and India have been lifted. At the same time, measurements of income inequality within countries have moved in the opposite direction. Notably, the US, Europe and more advanced economies have seen their measurement of income inequality worsen. Middle and lower-income households are experiencing stagnating and even declining incomes. Unhappiness over the lack of jobs and progress are being felt by many, particularly the youths. Will this lead to the political risk of turning away from global trade and investment? So far, the answer seems to be a 'No' as seen from the recent positive developments in the WTO negotiations in Bali and the Trans- Pacific Partnership negotiations in Singapore. Nevertheless, managing income inequality has become a priority for many Governments.

Second, technology continues to drive changes in productivity and jobs in the global economy. Extraction of shale gas, robotics, artificial intelligence systems and 3D printing are enabling economies to create value and do more with less. For instance, shale gas is making US companies more competitive and other economies search for alternative energy sources. Robots with enhanced sensing, dexterity and intelligence are increasingly being used to automate work in manufacturing and other sectors such as healthcare. A report by the McKinsey Global Institute estimates that advanced robotics would impact 6 trillion dollars in labour costs globally, or about one-fifth of global employment costs.

However, the benefits of technology are not evenly distributed and could further widen income inequality. Technology has led to the phenomenon of job polarisation where middle-skilled jobs with routine tasks are mechanised and made obsolete, while higher-skilled workers remain in demand. For example, 3D printing requires more advanced skills and makes mass customisation, itself an oxymoron, more feasible, thus reducing the need for mass standardised production. This will tilt the economic prospects in favour of skilled labour, wherever they may be in the world.

The **third** global trend is population ageing. The number of people aged 65 and older in the world is projected to triple from about 500 million today to 1.5 billion in 2050[5]. The pace of ageing in developing countries will be much faster due to rapidly declining fertility rates and faster increases in longevity. For example, France took about 100 years for its share of persons aged 65 and over to double from 7% to 14%. Countries like China and South Korea will take just about 2 decades to make that transition[6]. While incomes in Asia are rising, it is rapidly ageing at the same time.

As populations age, countries will face the challenges of sustaining economic competitiveness and financing the costs of ageing. A report by the European Commission projects that the workforce in the European Union (EU) will decline after 2022, despite improvements to employment rates and migration[7]. However, age-related public spending is one-quarter of GDP today and this is expected to rise further due to pensions and healthcare costs. Population ageing will pose challenges to countries' economic vibrancy and fiscal sustainability.

The **fourth** trend is globalisation and urbanisation. About half of the world's population live in cities today. By 2030, this will rise to 60% based on UN estimates. Cities are engines of growth due to the benefits of agglomeration. The confluence of enterprises, financial resources, people, ideas, institutions and government agencies give rise to tremendous opportunities for jobs, ideas and innovation. A McKinsey report estimates that cities will contribute to 75% of global GDP growth till 2025[8]. If planned well, cities are the most efficient way of providing infrastructure and social services such as education and healthcare, resulting in higher living standards.

However, the growth of cities with a greater diversity of people could lead to urban stresses such as the formation of ghettos in some cases, clash of cultures and crime and safety concerns. Cities thrive because of the vibrancy of ideas and talents but will have to manage the assimilation process of various groups of residents. Cities are the place of opportunities if urban stresses are well managed.

Seizing Opportunities and Forging Ahead

So how can we seize opportunities and manage challenges? The main challenges for Governments are: balancing the budget, supporting the economy and ensuring social equity. Let me share some of Singapore's key strategies.

The **first** strategy is to nurture human capital, which involves increasing the quality and quantity of labour. People are our key assets, and education is crucial in keeping workers relevant with the skills for an ever-changing workplace. Technology is moving rapidly and to help workers capitalise on the latest developments, we invest significantly in education. Our education system is responsive to the changing needs of industries and equips our people with relevant skills to be job-ready. Our students are given opportunities and exposure to work with people of different countries and cultures.

We are also looking at ways to increase our labour force participation rate (LFPR). Employers are incentivised to hire older workers through wage subsidies and can obtain funding support for job-redesign and age management initiatives. Employers are encouraged to re-employ workers up to 65 years old, beyond the minimum statutory retirement age of 62. These policies help to mitigate the impact on the economy as the population ages. It also supports our fiscal sustainability as a later exit from the workforce reduces social security spending while increasing income and savings. The Government is also doing more to support women at work. We provide grants for work-life initiatives and incentivise companies to hire back-to-work women. We encourage companies to adopt a progressive mindset towards women and older workers and ensure fair employment practices.

The **second** strategy is to create demand by remaining open to talent, investments and innovation. An open and globally connected economy is essential for economic dynamism and employment creation. Flows of talent and investments help to generate new businesses. The benefits of globally connected economies lead to further multiplier effects, thereby creating a virtuous cycle of investments, business growth and new job opportunities.

Complementing this is innovation. Innovation drives productivity and wage growth. From 2011 to 2015, the Government has committed 16 billion dollars in research, innovation and enterprise. We are building an eco-system that supports innovation and requires close partnership between the Government, the private sector and academic institutions.

The **third** strategy is to address urban stresses decisively in our policies. These stresses include rising income inequality and social tensions as diverse populations congregate. The presence of a larger pool of immigrants may give rise to feelings of displacement and social tension. High social pressures are common as urban living can disrupt family ties and people juggle the demands of career and family. There may also be issues of congestion or the creation of urban enclaves if cities are not well-planned.

Singapore, like any other global city, faces similar challenges. Our growth strategy must be an inclusive one. The benefits of growth must be enjoyed widely and fairly by the population to support an equal and just society. We are focusing on education and creating good jobs to enhance the prospects for social mobility. Low-wage workers are helped through measures like Workfare, a form of negative income tax, which supplements their wages while engendering a sense of self-reliance. This is complemented by the Special Employment Credit which is paid to employers as a wage subsidy. There are also fiscal transfers and multiple lines of social support in areas like childcare, education, housing, and healthcare, which benefit all segments of our population but more so for the lower income segment. This includes the Goods and Services Tax vouchers, generous housing grants to help the lower-income own their first house and education bursaries.

In our urban landscape, a well-planned city can avoid many of the problems of urbanisation such as urban decrepit, immigrant enclaves and congestion. This is not just physical planning and investments in infrastructure but also social policies which ensure that we avoid concentrations of certain segments, whether by income, race or religion. Long-term planning is key to ensure that cities have a high quality living environment where people can live, work and play, and raise their families. Cities with higher densities that are wellplanned can be highly liveable, environmentally friendly and efficient in delivering social services.

Conclusion

In closing, the future economic landscape will be increasingly characterised by risk and complexity, but therein also lie opportunities which we can seize. The Eurasia conference is a useful platform to bring together ideas and research from around the world to discuss these future trends and how we can respond to the challenges of today's global economy.

On this note, I wish everyone a fruitful discussion.

Thank you.

1 The total public debt to GDP ratio is about 100%. However, about 30% of public debt is owed to within the federal Government. This includes the Social Security trust funds and Federal Reserve's treasury.

2 Source: IMF World Economic Outlook, October 2013. The 2013 figures are estimates.

3 Source: Global Income Inequality by the Numbers: In History and Now (2012). The World Bank

4 GDP per capita at constant prices. Figures are based on 1992 and 2012. Source: IMF World Economic Outlook, October 2013.

5 Source: UN World Population Prospects: The 2012 Revision

6 Source: National Institute of Ageing and US Census Bureau, 2009

7 Source: The 2012 Ageing Report, European Commission.

8 Source: Urban World: Mapping the Economic Power of Cities. McKinsey Global Institute, 2012.