

# How would singapore achieve a sustainable economic growth in the next fifty years...

[Finance](#), [Investment](#)



## **Introduction**

Economic growth an increase in the country's national income measured over a period. Gross National product and Gross Domestic product are the key measuring indicators that define a country's growth status based on utilization of resources by the population for productivity. Increase in technological infrastructure facilitates quality production, minimizes waste and costs. According to economic theorists, a country is presumed to attain economic growth when their resources are fully employed in sustaining the social and economic welfare of every citizen (Jones 2002). As result, the role of every rational government is to maintain its citizens through allocation of scarce resources and to improve optimal social welfare of every being.

Governments facilitative efficient distribution of resources, develop infrastructure, provide enabling business environment that fosters quality productivity and efficiency.

It has been a daunting role for most nations especially the developing countries whose resources are unequally distributed resulting in unequal economic growth. Disparity in economic growth increases the wealth distribution gap among members of the country; a factor that derails the country from accomplishing economic development. Economic development is an advanced concept than economic growth due its extended criteria to incorporate the overall living standards of citizens such as access to education, quality health and availability of employment opportunities.

Economic growth is, therefore, the driving force for economic development of the nation. Dependency theorists indicate that under-developed countries are prone to slow and unequal economic growth rate due to the

government's reluctance to ensure distribution and utilization of scarce resources among all citizens. Therefore, a sustainable economic growth is determined by the country's per capita income and its progressive nature to attain economic development for all citizens.

Singapore is one of the Asian nations whose economic growth has been hailed for its robust growth being ranked as the country with the greatest per capita income in the world. The country's development journey is traced about 50 years ago after separation with Malaysia and gaining its sovereignty. Its Gross Domestic product recorded at a dismal value of below \$320 with a significant population being unemployed and low standards of living. The government concentrated its effort in industrialization sector as an influencing force for economic growth in order to foster value addition of goods and service as well as create employment opportunities.

According to the monetary authority of Singapore, approximately 27% of gross domestic product emanates from the manufacturing sector while the real GDP per capita income is approximately \$60000. This remarkable growth is attributed to the government's effort to enhanced full utilization of resources. Technical skills were established to train youths in technological skills while the illiterate workforce was allocated jobs in service industries such as tourism. The strategic macroeconomic objective boosted capturing of expertise from foreign direct investment that gradually raised the country's output value in the global competitive platform. The country's lenient policies on investment such as tax incentives have boosted the Gross Domestic product to an average of \$300 billion in the first quarter of 2014. Additionally, inflation and the unemployment rate significantly reduced to

2% and 3.0% indicating that the macroeconomic objectives had matched the country's economic growth and development (The Singapore Economy 2014). Despite the wide gap in wealth distribution, it would be logic to claim that Singapore economic growth is real and sustainable for promoting economic development in the coming decades.

### **Rationale for promoting economic growth in Singapore**

Aggregate demand refers to the net demand for products and services in a given economy over a specified period. The aggregate demand reflects the market value of property and service thus equated to the Gross Domestic product. According to Keynesian theory of interest, employment, and money, when aggregate demand equals the total supply the economy indicates full employment of resources in a given economy. The Aggregate demand model is used in the expenditure approach in calculating a country's national income. It incorporates the summation of consumption, investment, government expenditure and net exports of the country. Keynes noted that a decrease in real money supply reduces consumers spending power thus lowering its aggregate demand. Consequently, decrease in demand inhibits investment, reduced production and eventually loss of employment. Therefore, the government intervenes through fiscal and monetary policies to stabilize the economy and shield the population from economic shocks such as inflation.

The Singapore Gross domestic rises reflect an equivalent increase in consumer spending and increased investment. Singapore government has been at the forefront to increase consumer power through its central

provident fund that facilitates health care services for citizens and retirees wants. Keynes argued that consumer expenditure increases based on their disposable income. The disposable income is the remnant income after tax is deducted. Singapore's low tax rates attract a lot of foreign direct investment whose entry increases level of product substitutes leading to reduced prices. Reduction in prices increases consumer real wage thus boosting consumer spending. Increased government investment in infrastructure and technological development has contributed to the country's economic development. Temasek Holdings and GIC limited serve as the government's wealth reserve that is attributed to the development of government-linked developments that have led to increased employment opportunities in Singapore (The Singapore Economy 2014). Increase local and foreign investment has increased money supply in the economy and rise in Aggregate demand.

Singapore government embarked providing skills to its citizens by establishing favorable education policies. Citizens are enrolling in government-sponsored schools to gain labor skills for improved productivity. The macroeconomic approach improved the productivity and efficiency of country's output and the Gross Domestic product (GDP). Provision of technological skills and retraining of Singapore workers is a key driver for innovation and entrepreneurship in fostering economic development. Foreign and local investors are eligible for quick licensing, reduced interest rates, subsidies and accessibility to market their final output. In an economic perspective, reduction in interest rates increases money supply balance in the economy and enabling demand for investment. As a result, investment

hubs induce creation of employment for the country's labor force- a factor that augments the purchasing power of its citizens.

The population's standard of living is a crucial aspect in advancing economic growth and development. Efficiency in production will be sustained if Singapore citizens are in good health. Therefore, the Singapore government through the ministry of social development established a program that provides free medical care to all citizens in public hospitals. The social approach has contributed immensely to the working capacity of laborers by increasing their productivity level and quality output. For the government to sustain its economic development in the next fifty years and beyond, substantial investment in workers' health programs such as health insurance policy should be prioritized in order eradicate the economic time wasted when workers are subjected to impromptu sick-offs. The Singapore semi authoritarian mode of governance has helped the economy to sustain its positive growth especially by curbing corruption. The country is ranked among the few global economies where corrupt officials are subjected to death penalties. The rationale for the stringent approach is to encourage equality among foreign investors and promote equitable local and foreign investment. In addition, the legislative assembly has been in unison to establish tax incentive laws and favorable foreign investor's conditions to foster productive output in the economy.

One of the most notable aspects in Singapore is its remarkable economic growth despite its little land and scarcity of natural resources. The government has been capitalizing on technological innovation to foster cost-effective production. The government through its monetary policy of

Singapore has been developing fiscal and monetary policies that would boost producer's productivity through subsidies on capital equipment. For instance, the government set aside funds in its 2009 financial year budget to create competitiveness through tax incentives, cash transfer and tax rebate (Eskesen 2009: 5). The strategy necessitated the approach to promote private domestic investment in order to boost productive output and efficiency in the economy.

Engagement in exports and imports has supplemented the deficiency in resources by allowing imports of capital resources as well as expanding foreign earnings to promote investment agenda. Moreover, increased net export is active in balancing the economy's balance of trade and aggregate equilibrium of demand and supply.

Full employment of resources, increased investment, quality production, enhanced social welfare of workers and citizens will steer the Country's economic growth on the path to achieving overall economic development.

## **Challenges for Singapore in the next fifty years**

### Oil prices

Singapore engages in re-export of oil products after undertaking refining procedures. The activity has aided in the overall Gross domestic product of the country leading to increased productivity. Unfortunately, the economy is susceptible to the fluctuating oil prices that could adversely impact on the economy's balance of trade. The value obtained from the export may not surpass the value of imports leading to demand deficit. Further, the country's usage of oil in its manufacturing sector is prone to rise in

production cost- the cost impact will spill over to the consumers thus reducing their purchasing power. Reduction in purchasing power lowers demand as well as supply of goods and services. The ultimate consequence will be a loss of employment for manufacturing workers. Therefore, the monetary authority of Singapore should exercise monetary tools to shield the citizens from the impact of economic shocks that could derail economic growth and development.

### **Population aging**

The country's population statistics in 2014 recorded an alarming fertility rate of 0.80 children per every woman in the year 2014. The statistics pose a threat to the eligible working force that is dominant populated by foreigners. The labor force lacks equivalent replacement of the local population thus exposing the manufacturing and service industry to foreign dominance. Despite the government's strategy to invite foreign workers to immigrate into the country, the challenge remains a daunting risk to Singapore future sustainability of skills and productivity. The Singapore government is challenged to restore the fertility rate to counter the replacement of the aging working population and reduced potential labor force. The government should foster fertility among women in order to sustain the demand for workers and products especially in the aspiration to expand its global presence in the future.

### **Migration and scarcity of houses**

The small size of land has exposed the workers and the rest of the population to fluctuating house rents and the rising investment rates.



The social problem rose due to the growing population of immigrants and the rising cost of private houses. Most Singapore residents have been living in House development Board houses. Increased rise in house rent has spilled over the effects to the employment sectors where employees demand an increase in wage to cater for the unbearable life (Edelstein & Lum 2004: 345). Moreover, the housing units are expensive in Singapore and the effect is likely to influence the consumption patterns of prospective consumers in future. The population is challenged to emigrate or downgrade to smaller units in order to maintain their purchasing power (Abeysinghe & Choy 2004: 573) the increased wage could reduce Singapore's output competitiveness and risk the economy to unemployment.

### **External imbalance**

External imbalance arises when the import values exceed the exports values in a given economy. The Singapore economy's balance of trade is susceptible to imbalance due to the foreign inflation induced by the rising oil prices. Further, foreign currency dwindling further exposes the aggregate demand to deficit and economic shocks. The Monetary Authority of Singapore has been leading the initiative that ranks the economy with the highest number of foreign reserves in the world. The strategy acts as a precautionary measure to the economy from the demand pull inflation. With the economy recorded a high percentage of import products, the government needs cautionary measures to ensure trade balance and maintain aggregate demand stability.

## **High-interest rate**

Foreign trade and exogenous shocks could be attributed to rising interest rates that lead to increasing in prices and reduced investment. As a result, aggregate demand decreases causing inflation. The Singapore government has been active in managing its debt. The increase in public debt is risky to the economy and could subject the citizens to supply deficit and declining competitive advantage. Rise in interest rates reduces the real wage rate due to increased price level of output. The government is challenged to regulate fluctuating interest rates to safeguard the economy from reduced aggregate demand and economic deficit.

## **Strategies and programs for Singapore economic planning.**

The monetary authority of Singapore needs to utilize its fiscal and monetary policies to sustain the economic productivity of the country and steer the economy to global competitiveness.

The country's industrial strategy should be to empower its workforce with current skills that match the aggregate demand for quality products and services. The government should invest in capital equipment to supplement labor intensive methods and improve productivity. The approach will safeguard the economy from cost-push inflation that induces rise in price levels and decrease in demand or goods, services, and investment. An immigration policy should be formulated to curb the escalating increase of foreign workers in the manufacturing and service industry. Singapore government should encourage its local investor to embrace globalization in other nations whose economic stability is viable. This approach will diversify

its economic risk and expand the revenue reserves basket. In addition, the Singapore government has embarked on a journey of promoting teamwork among local and foreign workers in order to blend the international and local expertise. Provision of subsidies to foreign direct investors will boost their morale and facilitate sharing of production skills in the workforce. Further teamwork will promote mergers especially among small firms to improve quality productivity and global competitiveness

Education to the country's population will empower the potential workforce and create a smooth transition of operations from foreign skilled investors. The government intends to capitalize on the rising number of foreigners especially from China to help its population in acquiring labor and capital oriented skills or improved productivity. Further, the government should supplement the acquired skills with the equivalent capital resources so as to reduce the operation cost. As result, increased productivity will maintain the industry's competitiveness for quality production and enabling working environment. Lenient investment policies and investment incentives attract different producers thus fostering global competitiveness and quality production

Singapore is prone to the inflation vulnerability and foreign currency shocks if appropriate measures are not adopted. One of the key strategies should be to affect the monetary policy that would empower managers to borrow domestically in order to protect the economy from inflation. Moreover, it would be logic for the government to create awareness for local manufacturing -the approach will inhibit inflationary induced prices caused by excessive entry of imports into the country. Further, periodic training of

workers in the industry and harnessing education curriculum with industrial demands will facilitate innovation culture in the economy and promote quality production.

This program was introduced in the year 2009 with the sole objective of assisting emerging and struggling firms to maintain a workable team of employees and stimulate a conducive working environment. Further, the initiative will promote innovation and balance the social welfare of workers. Approximately \$5billion will be invested in the program to create job credit schemes. Further, banks will be provided with \$5billion to ensure that companies can access loans at favorable prices (The Singapore Economy 2014). In a tentative strategy, the government will invest \$4. 4billion to construct houses for the country's population. The strategies will help the country attain economic development of Singaporeans and retain competitive strategy.

## **Conclusion**

The Singapore economy has undergone significant economic progress that has attracted foreign investors and enabled efficient production and of quality goods and services. The government is obliged to harness its monetary and fiscal policies in shielding the economy from external and internally influenced shocks.

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