NUS National University of Singapore
Source: *The Straits Times*, pB3
Date: 6 November 2023

As the experience of many countries, including Singapore, suggests, human capital development is perhaps the most important channel of inclusive development.
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Avoiding the 'resource curse' is the key to Singapore's sustained growth

Investing in people – rather than depending on other resources – is vital to sustainable, inclusive development.

Terence Ho

As part of my work, I often speak to visiting delegations from Asia and Africa who are interested in learning from Singapore's development experience. These are typically senior officials who look to Singapore as a model for economic development.

They are, of course, aware of differences in context between Singapore and their own countries. Without trying to replicate the Singapore model in its entirety, their aim is to distil the essence of what makes Singapore tick, to derive learning points to apply back home.

The truth is that it is hard for economic growth to take off in countries that are beset with conflict or corruption. There is also the question of political constraints. Leaders may know what must be done for their country, but may be unable to act due to political constraints.

Another factor, I have come to realise, often makes the difference between economic success and stagnation: How much and how well a country invests in its people. The Organisation for Economic Cooperation and Development, for instance, has found that education has significant positive effects on economic output in the long term.

Where there is strong commitment to human capital investment – for the broad majority of the population – skills and wages improve, along with living standards. This sees the emergence of a middle-class that supports consumption demand and in turn invests in educating the next generation.

Investing in people is important not just for developing countries, but also for advanced economies pursuing the next bound of development. Education and lifelong learning are key to realising Singapore's shared vision as articulated in the recently released Forward Singapore report. This will require investment in people to be inclusive, substantial and smart.

OVERCOMING THE 'RESOURCE CURSE'

The Singapore Story is often told as that of a young nation that attained improbable success despite having no natural resources apart from its people.

However, it could be said that Singapore succeeded because of – rather than in spite of – a lack of resources.

The "resource curse" is a well-known observation that countries with abundant natural resources paradoxically tend to underperform in economic growth and development.

Countries endowed with oil or minerals naturally focus on the extraction of these resources to generate wealth. However, an inadvertent consequence is that investment in education and skills may be neglected. Moreover, wealth in a resource-rich economy often accumulates in the hands of a few companies and oligarchs who control the resources, enriching the few rather than the many.

In their book Why Nations Fail, professors Daron Acemoglu and James Robinson draw a contrast between "extractive" states – where rulers and elites pursue policies that benefit a narrow elite – and "inclusive" states – where wealth and power are more equitably distributed. They make the case that states with inclusive political and economic institutions have the best chance of success.

As the experience of many countries, including Singapore, suggests, human capital development is perhaps the most important channel of inclusive development.

When Singapore embarked on export-led industrialisation in the 1960s, it positioned itself as a cost-competitive manufacturing base for multinational corporations (MNCs), so as to leverage these companies' markets, capital, technology and business know-how.

The MNCs invested in Singapore primarily to tap the workforce here for production. Hence, it was in both the Singapore Government's and the MNCs' interest to invest in worker skills. Industry training centres were set up in partnership with companies such as Tata, Rollei and Philips. Concurrently, Singapore devoted a large share of government spending to basic, vocational and technical education to support the needs of the economy.

What, then, can countries that are endowed with natural resources do to overcome the resource curse? For a start, they should ensure that the profits from non-renewable resources are reinvested in economic and social programmes, particularly education, to support other income-generating activities.

They could also seek to capture a larger share of the supply chain beyond mineral extraction. Recently, Zimbabwe, Namibia and Ghana restricted the export of unprocessed lithium ores, with the aim of onshoring refining and manufacturing to generate greater value for the domestic economy.

Investment in downstream and related sectors can further diversify the economy. Brunei, for instance, is focusing on downstream oil and gas activities as part of a longstanding drive to diversify its economy. Saudi Arabia is embarking on a major economic transformation away from oil dependence through its Vision 2030.

Here, a parallel could be drawn with Singapore's experience, which involved diversification from electronics to other sectors including chemicals, pharmaceuticals and professional services. Such efforts will only succeed if concurrently, education and skills are upgraded to support new industries and jobs.

ENTERING A VIRTUOUS CYCLE

A question visiting officials often ask me is how Singapore financed its development.

While Singapore took up loans from the World Bank and Asian Development Bank from the 1960s to the early 1980s, the rapid success of export-led industrialisation meant that the Government was soon able to finance development from its revenue. Fiscal prudence, a young population and a high savings rate also contributed to persistent budget surpluses in earlier decades.

Rising incomes and living standards also gave the Government support to pursue economic development policies that might otherwise have been politically untenable.

Can this economic lift-off and virtuous cycle be replicated elsewhere? National contexts differ, and perhaps the current state of the global economy and international trade may not be as conducive to export-led growth strategies.

Notwithstanding, other factors may work in favour of developing economies today. It is possible to leverage digital technology and mobile communications to leapfrog development, facilitated by venture capital seeking opportunities worldwide.

For instance, mobile finance has taken off in Kenya, while Indonesia has developed a vibrant start-up ecosystem that has produced a stable of "unicorns" valued at over a billion dollars.

Technological leapfrogging, however, is no substitute for the development of strong institutions and human capital. The latter remains key to increasing productive capacity and enabling the broad middle class to share the fruits of economic progress.

INCLUSIVE, SUBSTANTIAL AND SMART INVESTMENT IN PEOPLE

Today, Singapore's challenges are different, having caught up with the advanced economies in per capita gross domestic product and income levels. The country has developed world-class infrastructure and accumulated substantial financial reserves. However, future success will still boil down to people. The next bound of development will depend on technology and innovation, underpinned by the quality of human capital.

Investing in people must remain at the heart of Singapore's social policy too. The high cost of living in a global city makes it necessary to increase social transfers and collective support to supplement incomes.

At the same time, we must remain focused on skills and training to improve jobs and incomes, with Singapore's infrastructure and ecosystem allowing workers here to enjoy a wage premium above what their skills alone can command.

Singapore will need to tap judiciously on its financial reserves, without becoming overly dependent on them, lest the resource curse emerge in a novel guise.

In a world where artificial intelligence can crunch data, programme software and even generate creative output, human beings will need varied and ever-evolving skill sets. These include deep understanding of technical concepts, people skills, hand skills, integrative skills and innovation.

For instance, to support the growing care sector and economy-wide digital transformation, we will need people who can connect with others emotionally, devise ways to improve processes as well as design better products and services.

The need for a range of abilities is consistent with Forward Singapore's focus on broadening the definition of merit and providing diverse education pathways. This inclusive approach to education and training will maximise the potential of every worker. Redoubling efforts to give every child a good start and providing continuous learning opportunities to Singaporeans of all ages will also enable everyone to contribute towards and share in the country's progress.

There should also be sufficient support for those who wish to make substantial, and not just piecemeal, investment in reskilling. This will allow trainees to acquire sufficient skills to take on new or expanded job roles, leading to better pay and prospects. The announcement of support for Singaporeans to pursue a second publicly funded diploma is therefore welcome.

However, it is also important that public monies be invested smartly, as more spending does not always lead to better outcomes. The bulk of funding should be directed towards enhancing employability, whether through industry-led training or the curation of subsidised courses from which workers may choose. Careful research can help inform the design and delivery of training for greater effectiveness and value-for-money.

Putting people at the centre is good strategy for any company, organisation or country. To sustain inclusive development and improve citizens' lives, Singapore must continue to focus squarely on investment in people.

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