

Is Singapore Really Ahead of Japan?

In my last essay dated 2015 Oct 25, I tabulated the nominal GDP Per Capita of Singapore as US\$53,800 in 2014 versus US\$32,100 for Japan, a gap of 68%.

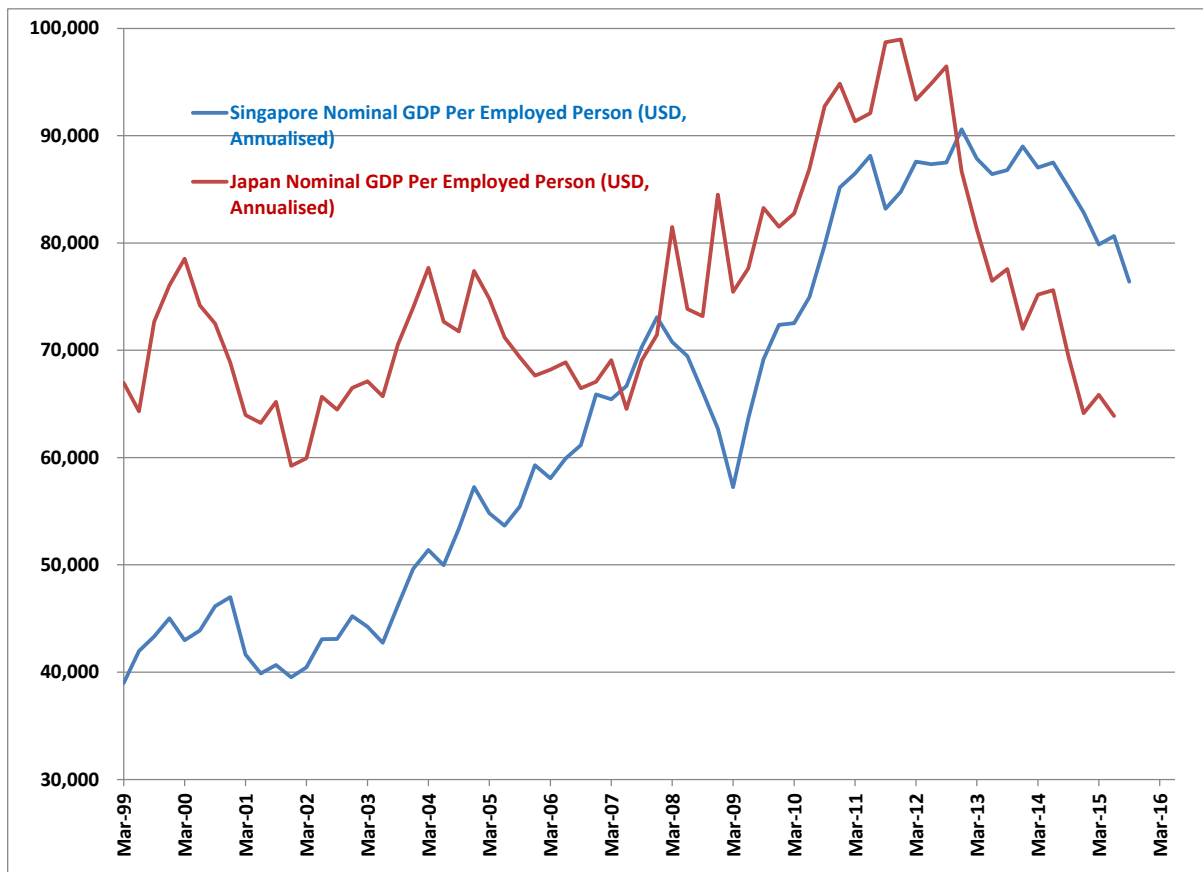
On the surface it may seem like Singapore is now a far more successful economy than Japan. This is astounding for all the people of Generation X and older because we all grew up looking to Japan as a superior economy.

However, upon deeper reflection and calculation, I discovered that this isn't quite true.

Here is the reasoning. GDP is generated by people who work. Children in school and fully retired old people do not generate GDP.

Therefore, to think about how effective or productive the economy is one must use the number of employed persons as a denominator, not the population.

Calculated like this, Singapore doesn't look so far ahead. The nominal GDP Per Employed Person of Japan was around US\$71,100 in 2014, compared to Singapore's US\$85,600, a gap of only 20%.



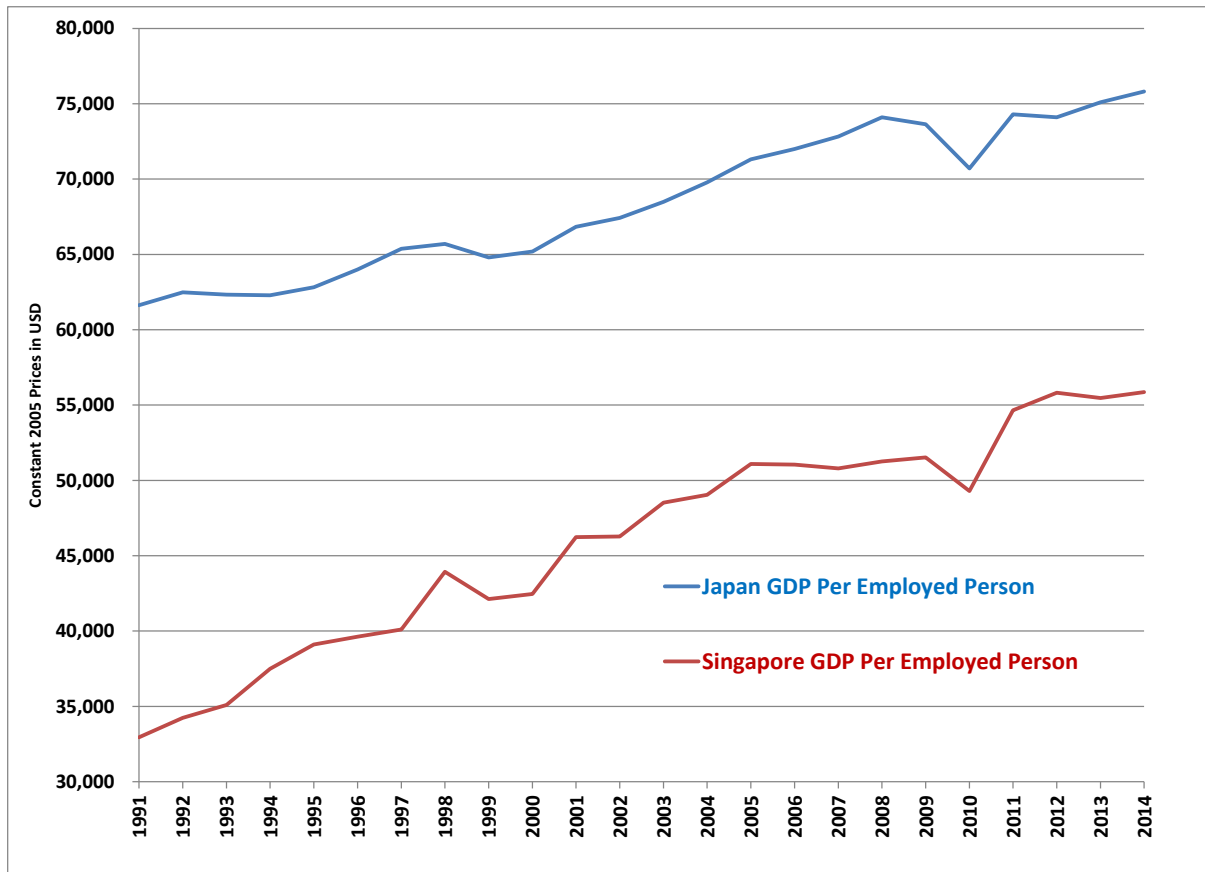
If you track the 2 series over the past 17 years, the above chart shows you how it looks. It appears that Singapore came from far behind in the 1990s and seemingly caught up by around 2010.

The chart may seem comforting for those who like to think that Singapore is now ahead of Japan but we should factor in inflation.

Thus far, these numbers are nominal.

Everyone knows that Japan has experienced nearly two decades of deflation while Singapore has experienced relatively high inflation.

What if we adjusted the numbers for inflation? Using the World Bank's Real GDP in Constant 2005 Prices in USD for the two countries, I produced the following chart.



As you can see, adjusted for inflation, Japan's real GDP per employed person remains FAR AHEAD of Singapore. Furthermore, the slope of the curves suggests that over the past half a decade, Singapore has stopped playing catch up and Japan is, in fact, pulling ahead again.

Is it any wonder that the Singapore government seems to be going into a frenzy about productivity?

My retort would be that the emphasis on productivity is nothing new. Singapore established the National Productivity Board in 1972. In other words, fretting about productivity is almost as old as Singapore itself.

I believe our real GDP per employed person will NEVER catch up with developed countries like Japan. The reason is our economic model that is based largely on foreign multinationals. As a result, we can only ever capture the employee remuneration portion of the value added that a multinational corporation generates.

Let me illustrate.

Apple is an American company with 115,000 employees. It designs the iPhone and then passes it to Foxconn in China to manufacture using their 1 million strong workforce. Foxconn is of course given a slice of the value-added as compensation for their manufacturing activities but the bulk of the value (profit) is captured at the Apple Corporation level in the United States. This is divided by 115,000 people, not by 115,000 + 1 million.

Foxconn's measured productivity is far below that of Apple and will always be so because it doesn't own the Intellectual Property and Brand Equity that lies behind the iPhone.

This is the same dilemma as Singapore. I was quoted a statistic some time ago that 65% of the Singapore workforce works for a foreign multinational. I can't verify this but we all know intuitively that this is not far from the truth.

That being the case, no matter how educated or skilled we become, our workforce will only ever capture the remuneration portion of the value generated by these companies. If Singapore's own companies do not own the Intellectual Property or Brand, we will always just be as Foxconn is to the iPhone supply chain.

It seems to me that the government understand this now. Besides obsessing about productivity, the other obsession seems to be about our local companies, usually termed SMEs because that's what they mostly are.

The question is whether Singapore is too late?

As of 2014, 50% of Singapore residents are already aged 45 and older. In fact, 70% of Singapore's resident labor force is already 35 and older.

The paradigm of prioritising Singaporean companies, ownership of intellectual property and brands and value-creation is new to Singaporeans, in general.

For 50 years, the paradigm for the majority was all about getting good jobs, climbing organization ladders and building wealth through owning real estate.

Now we have to learn to think in a new way. We have to imbibe new values. We have to reinvent our economy. As a Singaporean, I am happy and proud that we are trying.

But I also remember the adage – you can't teach an old dog new tricks. Unfortunately, we have left it until the workforce is dominated by old dogs, thus severely limiting the probability of success.

By the time Finance Minister Heng Swee Keat unveils his grand plan for The Future Economy in late 2016, we old dogs would practically be another 2 years older.

Old and tired, I am not sure that I will be able to learn anything new....