

WELCOME REMARKS BY DR KHOR HOE EE, PRESIDENT OF ESS
ESS ANNUAL DINNER AND
MAS-ESS ESSAY COMPETITION AWARDS CEREMONY 2008
11 Jul 2008, Ritz Carlton Singapore

Greetings

Distinguished Guests and Friends,
Ladies and Gentlemen,

1 Welcome to this year's Economic Society of Singapore (ESS) Annual Dinner. I'm heartened by the record turnout. And glad to see once again many old friends and new faces. My special thanks to Minister Mentor, who will be joining us soon, for gracing this occasion and agreeing to participate in a dialogue with us on the topic of "Singapore: Challenges for the Next Generation".

ESS Activities in the Past Year

2. Let me start with a few words about the activities of ESS. In the past year, the Society has continued to focus its activities on raising awareness and understanding of current economic and financial issues and developments affecting Singapore. Aside from the Annual Dinner, the Essay Competition, and the pre-university student seminar, we organized talks and seminars on the subprime crisis, the outlook for the US economy and the region, asset price bubbles, and monetary policy. Many of these events were organized in partnership with the universities, government agencies, and the Singapore-IMF Training Institute. We partnered the US-based Pacific Pension Institute to bring to Singapore the Asian Roundtable Conference in November. Besides the talks and seminars, we also participated in an inter-agency study on the issue of poverty and social safety net in Singapore. Some members of our Society also participated in the annual conference of the Federation of ASEAN Economic Associations in Bangkok which focused on political economy issues in the region.

3. I should also briefly highlight the success of the 2nd Singapore Economic Review Conference which was held in August of last year. The conference attracted more than 350 academics from 39 countries, including many distinguished economists. Prof Joseph Stiglitz, the 2001 Nobel Prize Winner for Economics, was the keynote speaker for the conference. The success of the conference has helped to profile Singapore as a regional center for economic research. And we look forward to next year's edition of this biannual event.

4. So on the whole, the Society has continued to play a role in developing the eco-system of economic research in Singapore through its work in organizing talks and seminars, undertaking studies on policy issues, participating in policy debates, coordinating activities of the universities and government agencies, and networking with external research institutes.

Thanking the Council Members and Supporters

5. As anyone who has been involved in a non-profit organization would know, it takes a great deal of time and energy to organize and run the activities of such an organization. ESS has only one full time staff. It is therefore not possible to organize its various events and activities without the commitment and sacrifice of my colleagues in the Council and other friends and supporters. I would therefore like to express my deepest appreciation to them for helping to run the Society.

6. Another very important group of supporters that I would like to thank is our Corporate members and those of you who bought seats or tables at this dinner tonight. Your financial support is critical in funding the various events and activities. I hope you will also find time to participate in these activities in the coming year.

Challenges in the global environment

7. Let me now move on to the theme of our Dinner tonight. MM will be joining us shortly to engage us in a dialogue on the challenges facing the next generation of Singapore. I thought it may be useful for me to provide some perspectives on the challenging environment facing Singapore today.

8. This past year has been a most challenging one for many of us in this room. One of the things I love about being an economist is that there is never a dull moment. Just when you think you have everything figured out, something will happen to turn everything upside down. If you remember, last year was the 10th anniversary of the Asian financial crisis and there were lots of speeches, seminars and conferences to commemorate the event and draw lessons from the crisis. Ironically, the subprime crisis blew up in August, almost exactly ten years after the Asian financial crisis.

9. Unlike previous financial crises, the epicentre of the current crisis is in the US and Europe. Thus far, Asia and other emerging markets economies have weathered the crisis quite well. However, the financial crisis seems to be entering a new phase characterized by negative feedback loops between the financial system and the real economy, which is likely to lead to more losses and more pain. Many emerging markets economies are also struggling with the problem of accelerating inflation and the risk of an economic slowdown, or stagflation. Clearly, the period ahead promises to be a difficult one for many countries where the governments are struggling to contain inflationary pressures while sustaining growth and mitigating the impact of rising food and energy prices on the poor.

10. The current surge in inflation has come as a surprise to many economists. Until just a year ago, inflation was relatively tame across most countries, notwithstanding the sharp spike in world oil prices. Most economists thought that the inflation monster had been slain many years ago.

Inflation had fallen sharply from their peaks in the 1970s and early eighties and had trended downwards across most countries in the 1980s and nineties. For the last four years, the world economy was growing at above-trend rate of about 5% per annum with little sign of inflationary pressures. However, since the second half of last year, the global environment has taken a turn for the worse. First, we had the subprime crisis which caused many firms and financial institutions to go bust and many financial markets to seize up. For a brief moment back in March of this year when Bear Stearns was on the verge of bankruptcy, the global financial system was at risk of becoming gridlocked. Thankfully, the Federal Reserves came to the rescue and that danger has passed. However, an old monster has now reared its ugly head: inflation.

11. As you can see, we are living in what the Chinese call, “interesting” times. The world economy is undergoing rapid changes, driven by the forces of globalization and the strong growth of China, India and other emerging markets economies. These changes, in turn, are putting tremendous strains on natural resources and the environment, and stressing the social, economic and financial systems of many countries. The recent surge in oil and food prices and the sub-prime crisis are manifestations of these strains. Clearly these are not just short-term problems but long-term structural challenges which have manifested themselves as macroeconomic and financial imbalances in the short run.

Challenges to Singapore

12. What do these developments mean for Singapore? Singapore has come a long way since 1965 when it became independent. It has managed to transform itself from a small, poor, trading port with no natural resources into a prosperous, thriving, cosmopolitan city state which is the envy of many countries. Along the way, it has had to overcome many political and economic challenges and reinvent itself a few times: from a trading port in the 1960s to a low wage, labor intensive, manufacturing enclave in the 1970s, and

to an industrialized economy in the 1980s and 1990s. However, the emergence of China as a low cost manufacturing powerhouse in the 1990s and the bursting of the IT bubble in 2001 sapped the strength of the manufacturing sector. The government responded with an ambitious plan to reform and revitalize the economy in 2003. The success of this latest restructuring has been evident since 2004 when the economy diversified from electronics into pharmaceuticals, marine engineering, tourism, and business and financial services. For the last four years, the economy has been growing rapidly at an average annual rate of 8 percent. The economic boom has, in turn, sparked a property boom and created thousands of jobs, reducing the unemployment rate to about 2 percent.

13. However, the gains from the strong economic growth have not been equally shared. The wages of the lower skilled domestic workers has stagnated while the income disparity has widened. The government has responded by implementing a workfare program to supplement the wages of the lower income groups. More recently, inflation has risen in line with trends elsewhere in the region, posing new challenges for the economy.

14. Looking further ahead, the challenges are formidable. Externally, the rise of China, India and other emerging markets is reshaping the global economy and posing new challenges for the world. At the same time, financial markets have become more volatile and the global financial system is looking more fragile. Here in Singapore, we have reached a high level of economic development and must rely increasingly on innovation, creativity and enterprise to drive our growth. This is happening at a time that our fertility rate has fallen sharply and the population is aging rapidly and living longer.

15. The government has responded to these challenges by liberalizing the policy and regulatory environment for businesses to encourage innovation

and entrepreneurship. However some critics have argued that this is not enough and that Singapore will need to do more in order to sustain its prosperity in the long-term. On the home front, the government has introduced a workfare program, reformed the medical insurance system, and adopted policies to extend the employment of the older workers. Again the issue is whether these policy measures are enough to address the needs of the aging population and the poor. I shall stop here and leave it to Minister Mentor to share his thoughts with us on the challenges and what it takes to sustain our remarkable economic success.

MAS-ESS Essay Competition

16. Before I conclude my remarks, let me turn to the MAS-ESS Essay Competition. Along with the pre-university seminar, the Essay Competition is the key channel through which we reach out to our young budding economists. The topic for this year's competition was "Singapore's Growing Income Disparities: Causes, Consequences and Policy Options". We wanted our students to think critically about an important socioeconomic challenge facing Singapore today, evaluate the measures that have been taken so far, and try to come up with fresh solutions.

17. The response to this year's essay competition was overwhelming – we got 146 entries in all – 48 in the university category and 98 in the pre-university category. This is twice the number of entries we received in the previous year. More importantly, many of the essays were of a very high quality.

18. The top winning entry in the university category came from Ms Ishita Dhamani of NUS. The top winning entry in the pre-university category came from Mr. Ying Zhi Yun John of Anglo Chinese Junior College. I congratulate all the winners of the essay competition. The prizes will be presented to the

winners by Minister Mentor at the end of the Dialogue session.

Conclusion

19. Ladies and Gentlemen, on that note, I conclude my remarks for this evening. Minister Mentor will be joining us shortly for dinner and the dialogue.

20. Thank you.