

Singapore 2.0. Singapore Economy In A Rut. Policy Has Run Out Of Ideas.

The Singapore economy is in a bit of a rut. A space constrained, population constrained economy like Singapore needs to look to unconventional economic models for growth. It cannot target population growth, capital accumulation and technological innovation without bound. Population growth meets space constraints and population density issues sooner or later. By all accounts, it already has. Capital accumulation faces fewer limitations but by far it is technological innovation that will liberate Singapore's economic growth from conventional constraints.

Population constraints imply domestic demand and output constraints. Singapore has to supply the world in a scalable and dematerialized fashion. This is even more so given that the world is evidently engaged in a trade war which is impacting material goods far more so than services.

Beyond using or being associated with innovation, Singapore needs to be generating innovation. Whether Singaporean's or immigrants or indeed transients generate the innovation is immaterial as long as the innovation is retained as Singaporean intellectual property.

Singapore needs to become a centre for research and development. It needs to be a central node in the global knowledge economy. This means it needs world class schools and research facilities. Red tape and over-regulation are the mortal enemies of innovation. Rules and regulations have to be streamlined to encourage innovation.

One area of potential development is financial technology. At one end of the spectrum is the cutting edge technology which the industry expects to disrupt the current financial system by changing how customers, counterparties, debtors, creditors, and regulators interact in the financial market place. This is so-called Fintech, which is highly topical. The other area of financial innovation is a slightly older technology that though useful has been demonized by the 2008 financial crisis.

Singapore is privileged to have two sovereign wealth funds with considerable financial firepower. One of them, Temasek Holdings, has significant investments in banks such as DBS, a national champion with Asian regional reach and services from investment banking to retail and consumer banking as well as wealth management. As the Western world struggles to regulate their banks and insurers in the aftermath of 2008, Singapore's relative resilience emerging from that crisis is an opportunity to go back where others failed and salvage valuable technology. It has the opportunity to work around Basel III and demonstrate its weaknesses by reviving securitization and structured finance and making a success of these technologies.

The West's experience with Shadow Banking began well, was overdone by Wall Street and ended in disaster. Through this all Asia was such a late adopter that it had not the opportunity to overextend the technology to disastrous end. There is not the political and cultural baggage surrounding structured finance in Asia to prevent it being revived in an improved form for the good of all. Where Basel III is highly restrictive, the Shadow Banking system can be a useful conduit to direct savings to investments more efficiently than a banking system hobbled by overly reactive regulation. The world has sufficient potential economic growth left in it, and central banks the means to finance it, but the plumbing is broken.

Singapore's SWFs have the capital to capitalize innovative credit structures to enable economic growth, not just in Singapore but in Asia. It has banking relationships which it can draw upon to provide the intellectual basis. One example would be to encourage a bank like Standard Chartered to engage its credit underwriting machinery without consuming balance sheet. Standard Chartered's new boss is an old hand at leveraged finance and is well placed to turn Standard Chartered's investment bank into a tranching credit manufacturer. Temasek could very well sponsor such activity and anchor the equity of such investment vehicles. DBS could be similarly engaged. Both banks could become examples of how banks can work hand in hand with shadow banks in a capital efficient, profitable and regulation-compliant fashion directing capital where it needs to go and pricing risk appropriately.

If done properly, Singapore could reap a Wimbledon Effect, at least in Asia, reintroducing a technology there that went out of fashion in the West for not entirely good reasons, and which can do a lot of good in bank capital constrained regions.

If and when Singapore decides to go down these roads the institutions leading the way will

need to have appropriate leadership. CEOs and CIOs will need to be familiar with these technologies. Generalists briefed by specialists only to approve or validate the specialists' decisions and recommendations will not do. These armies will need to be led by battle scarred fighting men and not HQ bound generals.

The SWFs will have a much wider responsibility. Not only must they generate sufficient returns for the nation to augment the budget, they must actively and aggressively drive development both of industry and nation. They must shamelessly attract expertise with capital and latitude, they must attract coinvestment both financial and strategic and they must create a brand which can extend beyond the shores of this tiny island. This brand will stand for integrity, transparency, efficiency, innovation and excellence. It must demonstrate a new model for countries constrained by size and resources, that once again a small force can achieve more than a big one. Its going to take some leverage.