SPEECH BY MR HENG SWEE KEAT (MINISTER FOR EDUCATION) AT THE WELCOME DINNER OF THE SINGAPORE SUMMIT 2014 ON 19 SEPTEMBER 2014, 7:30PM

Of Nutmegs, Ideas, and an Island Called Singapore

Introduction

Mr George Yeo, Singapore Summit Conference Chair, distinguished guests, ladies and gentlemen. Welcome to Singapore and to the 3rd Singapore Summit. I am very pleased to see so many friends and so many leaders in the various industries coming together to explore ideas and opportunities.

A Lesson from the Humble Nutmeg

It has been six years since the Global Financial Crisis (GFC) of 2008, which was triggered by problems of excessive credit growth and over-priced assets, especially in the US property market. As we continue to reflect on the lessons learnt from this tumultuous event, I am reminded of a story a friend sent me about the world’s most valuable properties in the early 17th century. These were the islands in the Banda Sea, in today’s Indonesia, and the most valuable were Pulau Ai and Pulau Run. Pulau is the Malay word for island.

The islands drew the fortune seekers at that time for one and only one reason: a spice called nutmeg. Nutmeg was, in the words of a contemporary observer, the ‘most coveted luxury in 17th century Europe’. A recent American radio programme in the US explained that nutmeg “was fashionable among the wealthy. It was exotic and potent enough to induce hallucinations”. And trade in it was highly lucrative – profit margins were reportedly up to 60,000%.

For over a hundred and fifty years, the maritime powers of the day fought over these islands, starting with the Portuguese who came in 1511, then the Dutch and the English. Rivalry between the English and Dutch was fierce, and the islands changed hands twice. When the Dutch seized the island Run in 1665, the English retaliated and took New Amsterdam in North America. Two years later, they negotiated a peace treaty. The English gave up both Pulau Ai and Pulau Run, and in return, got a small trading post with less than 1000 people – really nothing compared to the riches of nutmegs produced in these two islands. Do you think it was a good deal? Nobody did at the time. But guess what this trading post was? Well – it was Manhattan Island – yes, New York.

Today, nutmeg is just another commodity, and the two islands are sleepy atolls. And New York – well, it’s New York!

What is the point of my story? There are several.
First, trade is an enormously important part of the growth story, indeed in the advancement of mankind. In the continuing rivalry between the maritime powers, Singapore too became a trading outpost for the British East India Company in 1824. Right from its early days, Singapore benefited greatly from open and free trade, including the spice trade. Singapore was for centuries an emporium of the world, thriving in the trade of physical goods, and a key node in the Maritime Silk Road.

Second, the nutmeg story is an instructive lesson about the basis for sustainable economic development. An agricultural commodity like nutmeg has limited supply, which fluctuated with the broader economic cycle and climatic conditions. To win the economic race, the players sought to control the supply, by dominating the lands, suppressing the natives and keeping rivals out. It was a zero-sum game, and often a brutal exercise. But the fervour over a single product could not last – it was also subject to changing tastes, fads and the challenge of new and better products.

The contrast between the fortunes of Pulau Run and that of New York could not have been starker. New York flourished when the ideas of the Enlightenment, and the Industrial Revolution that started in England, reached the US. It was the story of migration and entrepreneurship, of free markets, of ideas and technology that created a new wave of prosperity, and which transformed the global economy. New York’s model of development, driven by ideas and an embracing vision, is constantly now being played out.

For 200 years from 1750, starting with the Industrial Revolution until the 1950s, the economies in Europe and the US took off. While this was punctuated by WW I and WW II, and the Great Depression, standards of living rose dramatically. After WW II, the enlightened American policy of not punishing the vanquished, but instead helping them to re-build their economies through the Marshal Plan, ushered in a period of prosperity in Western Europe. GATT (and later WTO) was conceived in 1947 out of the vision that greater cooperation in trade enables all to prosper.

In the rest of the world, the post-1950 period saw many colonies fight off the yoke of colonialism. A few made the right decision to embrace global capitalism, plugged themselves into the global economy and prospered. Singapore, which had always kept itself open to the world, was one of those few Asian countries which narrowed the income gap with the West. The success of these “dragons” encouraged many more, including the “tigers” and then China and other developing nations, to join the global grid. Hundreds of millions have been lifted out of poverty.

Implications for the Challenges Today

When I joined the world of central banking in 2006, it was a time of optimism and even exuberance. Central banks around the world were expressing quiet confidence in our ability to engineer stable growth and low inflation.

But the GFC of 2008 had a great dampening effect. Confidence and optimism has been replaced by uncertainty and doubt. In world trade, the DOHA round is stuck. All around the world, people began to question the benefits of globalisation and the Financial Times ran a series of articles on the “Crisis of Capitalism”. US businesses still sit on vast amounts of cash...
relative to what they could have invested – a considerable war chest, but investment has been moribund for an extended period and is only now showing tentative signs of life. In emerging markets, the earlier euphoria has been tempered by a more sober analysis of growth prospects.

But I am also encouraged by the more positive developments – the advances in ICT, in robotics, nanotechnology, genetic engineering renewal energies and the exploitation of shale gas. The US manufacturing sector has recovered quite remarkably, with higher productivity.

The other reason for cautious optimism is that, gradually but surely, policy-makers around the world are beginning to take structural reforms to heart. From economic restructuring in China and Europe, to Abenomics’ third arrow, and the recent pledges made in the run-up to the Indian and Indonesian elections, we can see the desire for change. If there is one lesson to be learnt from dealing with the consequences of the GFC, it is that real, sustainable growth can only come from the hard and continual work of restructuring, and ultimately from productivity growth.

Ideas, Rules and Cooperation

In looking at the supply-side and structural changes relevant for securing sustainable growth, three big factors come to mind.

- **First**, ideas matter. Certainly, ideas that make for a better world, ideas from the East and West, from humanities and the sciences, from the abstract to the practical. Ideas that should be shared freely. But also ideas that are put into action, to produce better goods and services, to enhance the quality of life. This means respect for intellectual property, investment in R&D and commercialisation of ideas. This means investment in basic education, higher education and continuing education. These are critical to a more flexible and productive labour force, and a more enlightened citizenry.

- **Second**, rules and institutions matter. One highly visible consequence of the GFC has been a proliferation of rules to regulate the financial sector. But I think there are many other important rules and institutions that we need to evolve and adapt if we want to make the best use of new opportunities and new technology. Rules on investment need to be predictable, given long gestation periods. Rules need to create sufficient incentives to enable the decisions of billions of economic actors to be coordinated to achieve a good outcome. Rules need to respond to the possibilities opened up by new technology, and institutions need to adapt to the changing global environment.

- **Third**, consensus and cooperation matter. We need a consensus on how we can generate and sustain growth within countries, and cooperation across countries at the bilateral, regional, and global levels to expand the economic space for all. One bright spot is that the GFC did not result in a closing of markets. But we need a more positive agenda – to continue to open up markets to trade and investment.

Let me draw out some examples from Singapore to illustrate the above tenets.
- **First**, to generate ideas, we will invest in education, R&D, protect and advance the use of IP. While our education system is sound, we must strive to do better. We are now seeking to create multiple pathways, promote multiple modes of learning, to develop talents in multiple domains. We are helping our students to learn more about the world around them – in 2013 alone, over 100,000 of our students in primary and secondary schools travelled abroad, with 60% to the ASEAN countries. This represents about 20% of all our students, and most of them were funded by the government to go abroad.

- To make lifelong learning real and relevant, we are working with companies to make workplaces great learning places. We have to change the current paradigm of just frontloading education in the first 20 years of a person’s life, to a lifelong journey of learning. We are investing in a transformational initiative called SkillsFuture. DPM Tharman Shanmugaratnam will be chairing a Council to spearhead this. So you are going to see major changes in this.

- We are also bringing together key decision-makers to connect and discuss the ideas, big and small, that can make a difference. The Singapore Summit is one excellent example. Our universities are deepening research in the confluence of Asia and the world, and several companies have sited their corporate universities and training centres here. We welcome all to make use of Singapore as a Global-Asia node.

- **Second**, Singapore’s success has been a story of adapting rules, strategies and strengthening institutions to changes in the domestic and global environment. The government has had to adapt its strategies and policies to nudge and nurture industry as they strive to take full advantage of the new possibilities.

- For over 700 years, Singapore functioned as emporium of the world. When the global economy was all about trade in goods, we served as a display and trading centre, taking advantage of the monsoon seasons for sailing boats to come and go. When industrialisation in Asia was at its infancy, we sought to draw in manufacturing investments and welcome MNCs. And indeed, we have benefitted a great deal from many of your investments, and many of you helped build our institutions of learning. As regional incomes and demand expanded our thrust into services took off. Throughout, our institutions have continued to emphasise predictability of our policies and ensured fiscal prudence, macroeconomic stability and openness.

- In the future, the global economy will be defined more by ideas, innovation and creativity. We hope to be a living laboratory for these changes, and usher in an era where advanced manufacturing and new services, powered by technology, powered by ideas, will enhance people’s welfare.

- Singapore has very few natural advantages, so we must make the best use of all that we have. One of these is that we are a city, and also a country. So our little island can serve as a test-bed, a living laboratory, a prototype for all sorts of urban solutions, mobility and liveability solutions, for smart city, for green, sustainable development.

- Hence, we are investing in R&D, and in creating the conditions to enable commercialisation, particularly, in respecting IP. So our other DPM, Mr Teo Chee Hean, who chairs our National Research Foundation, is spearheading this effort, and
our Prime Minister chairs an overall Committee to look at Research, Innovation and Enterprise.

- **Third**, consensus and cooperation matters. I recall that when we negotiated our first free trade agreement with New Zealand in 2000, we were criticised for breaking ranks and for creating a spaghetti bowl of rules. Over the last decade, however, economies within Asia have concluded many trade agreements.

- So I am glad that this little initiative has grown, and blossomed into a free trade movement, with more bilateral, regional deals coming our way. My hope is that as we see the gains from cooperation, these regional trade pacts will blossom into global free trade.

**Conclusion**

Let me now return to my nutmeg and island story. The nutmeg story was about a scarcity mentality – nutmeg was a scarce commodity, and economic competition meant a zero-sum game – the gains of one are the losses of the other.

After almost 400 years, the rules of the game have changed. The prosperity of our neighbours is good for our own prosperity. Working together, we can grow the pie. And with new ideas, new technology, we can expand our space for growth. Provided we have good rules, and a willingness to cooperate.

For the future, will we have the wisdom to cooperate and expand our space, or will we, like the nutmeg traders of the 17th century, fight and kill one another over islands that produce what eventually became a commodity? Will we make the wise decision of developing free economies, with innovation powered by new ideas and new technologies, and new ways of working? Will we have a growth mentality or a scarcity mentality?

Finally, I should say a few words about the Gardens by the Bay that we are in now. In many ways, these beautiful Gardens are a symbol of Singapore and what we hope we can do to be relevant to the world. Built upon a theme of celebration of tropical plant diversity, the Gardens currently houses nearly three thousand varieties numbering one and a half million plants, both indigenous and introduced. Very special conditions are created for the beautiful, weird and wonderful plants and flowers from different parts of the world to thrive. I am sure that there will be a variety and species of plant from every part of the world you come from.

The Garden is located at the historical maritime gateway to Singapore. It has become a national icon that not only enhances the city skyline, but also provides an oasis of peace in our city centre for people from all walks of life to connect, recreate, and enjoy the bounty of nature. It is a place for us to reflect upon the need to cherish the fragile ecosystems in the world, to think of the possibilities of environmental restoration where man has done damage, and to reap the rewards made possible by such endeavour. The amazing increase in biota from insects to birds and otters within this new entirely man-made habitat in Singapore has also allowed resident nature lovers and biologists from all over the world to meet and interact. It is a catalyst for thinking about our future, and our relation to planet Earth and fellow humans.
This Garden complements our historical Botanic Gardens which also holds deep heritage value for us.

You have many interesting sessions ahead – on sustainable growth, economic integration in Asia, geopolitical risks and energy dynamics. I wish you all a fruitful discussion. Do enjoy the evening in this special Garden. And by the way, we have nutmegs in this Garden.

Thank you.