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Keeping Singapore cyber-safe

EDITORIAL

THE new five-year National Cyber Security Masterplan announced on Wednesday should go a long way in convincing enterprises, especially global ones, that Singapore intends to remain a safe place to do business in this Internet age.

With increased digitisation of data, the nature of business is changing. Cloud computing, Big Data, Software-as-a-Service (SaaS), mobility and data centres are the new tools of business, and all of this is underpinned by ubiquitous and safe connectivity. Singapore has done well to build up a state-of-the-art physical cyber infrastructure. However, the really hard part is to keep this infrastructure safe and reliable.

Studies have shown that, globally, a cyber intrusion happens every five minutes and more than 90 per cent of enterprises have malware (software that is intended to damage computers and IT systems) in their networks. In Singapore, more than a thousand cyber-crimes – such as hacking, unauthorised access to computer material and unauthorised use of computer services – have been reported under the Computer Misuse Act since 2008. Eva Chen, CEO of Trend Micro, recently told this paper that the next big target for hackers and malicious code writers would be Big Data and virtualised servers. A successful intrusion could give hackers access to potentially invaluable information.

The Masterplan has correctly identified that what is needed is a collaborative approach involving all stakeholders. As Minister for Communications and Information Yaacob Ibrahim noted, by adopting such a coordinated approach across the public, private and people sectors, "the Masterplan will enhance the security of Singapore's critical infocomm infrastructure and address the security of businesses and individuals".

Improving the physical security and reliability of Singapore's infocomm infrastructure is an ongoing exercise. What is equally important is the effort to promote best practices in infocomm security adoption among end-users and businesses. Often, being wary online is the best defence against hackers. The new plan will promote infocomm security adoption by leveraging on publicity channels and collaborating with industry and trade associations.

Another key area – one with long-term potential – is a national effort to increase the number of trained infocomm security personnel in Singapore. In 2011, Singapore had only 1,500 IT security specialists – just one per cent of the total infocomm industry manpower. The government has been taking various measures, such as working with enterprises and institutes of higher learning, to increase the number of students and working professionals who are trained in infocomm security. The Masterplan will give this effort a boost.

As Dr Yaacob said, infocomm security is now a shared responsibility. New capabilities and awareness need to be developed. Hopefully, the Masterplan will help achieve this outcome.

Threat of poverty: *The more advanced Indian states, mainly in the south and the west, are low middle-income, but the rest of India is low-income. Thus much of the country, like some of its neighbours and other Asian countries, has yet to escape the low-income trap.* PHOTO: AFP

Getting out of the middle-income trap

Asian emerging markets need to reform policies and institutions, and get the basics right

By **RAZEEN SALLY**

WILL emerging markets in Asia follow Latin America and the Middle East into the middle-income trap? Having enjoyed fast catch-up growth, will they now get stuck, unable to graduate to high-income levels?

These are live policy and research questions, most recently brought up in the International Monetary Fund's (IMF) spring regional outlook for Asia and the Pacific.

This IMF report identifies middle-income countries in East and South Asia as those with per capita incomes of US$2,000 to US$15,000. Its reading of the evidence is that there is indeed a middle-income trap, and Asian countries need to reform policies and institutions to get out of it.

Let's probe deeper.

Most of the evidence on the middle-income trap comes from Latin America and the Middle East. These regions are abundant in land and natural resources. They have had growth spurts during commodity booms, often followed by growth crashes when commodity prices plummet.

In contrast, much of East and South Asia is abundant in labour. The East Asian tiger economies started their catch-up growth by putting armies of initially unskilled labour to work. They shifted rapidly from agriculture to export-oriented manufacturing. Then they moved up the value chain in flying-geese pattern. From the 1980s and 1990s, they inserted themselves in global value chains. Growth has been higher and more sustainable, with benefits more widely shared, than in Latin America and the Middle East.

Until the 1980s, South Asia, unlike East Asia, had Latin American-style import-substitution policies that restricted growth – and without a commodities bonanza. But then the sub-continent opened up and integrated with the global economy. Growth rates shot up accordingly.

Thus labour abundance has helped "globalising Asia", especially East Asia, to achieve faster catch-up growth than Latin America and the Middle East. That puts the region in a better starting position to avoid the middle-income trap.

Now let's differentiate middle-income Asia. There are eight countries that stand out in East and South Asia: Malaysia, Thailand, Indonesia, Philippines, Vietnam, China, India and Sri Lanka. But they are at very different levels of development. So let's first divide them into "high middle-income" and "low middle-income" brackets. Malaysia is at the top of the high middle-income bracket. Indonesia, Philippines, Vietnam, India and Sri Lanka are in the low middle-income bracket. China and Thailand are roughly in the middle with per capita incomes of about US$8,000.

Now let's make a further subdivision, this time within China and India. Both have sub-regions that differ widely in terms of economic development. The 10 coastal provinces of China are clearly in the high middle-income bracket, close to Malaysia. But the interior provinces are low middle-income.

The more advanced Indian states, mainly in the south and the west, are low middle-income, but the rest of India is low-income. Much of India – like Pakistan, Bangladesh, Nepal, Cambodia, Laos and Myanmar, not to mention East Timor, Papua New Guinea and North Korea – has yet to escape the low-income trap.

So far, only five Asian economies have escaped the middle-income trap: Japan, South Korea, Taiwan, Hong Kong and Singapore. What do the rest need to do to follow them?

The World Bank's landmark *East Asian Miracle* report analysed the catch-up growth of the East Asian tiger economies, but some of its conclusions are relevant to the middle-income trap. Its foremost conclusion was that it is vital to "get the basics right": macroeconomic stability, relatively low distortions to domestic competition, openness to external trade, flexible labour markets, and investment in hard infrastructure as well as education. Pace the revisionist school of thought, these "horizontal", economy-wide policies are far more important than "vertical" industrial policies to promote favoured sectors and national champions.

Getting the basics right must still be the top priority for low-income Asia – including the less developed states in India. These countries and regions should be in the business of catch-up growth.

At the other extreme, high-income Asia has to rely on productivity – and innovation-based growth. Getting the basics right is still important, but it has to be complemented with more sophisticated structural and institutional reforms. These second-generation reforms have to go beyond liberalisation of product markets to encompass deregulation of factor markets (for land, labour and capital). They must also include opening up of services sectors, upgrading soft infrastructure (such as higher education and skills) and improving the quality of public administration, regulatory agencies and judicial systems.

What about middle-income countries "in between"? They need a mix of getting the basics right and second-generation reforms. But the balance should differ as between high middle-income and low middle-income countries. High middle-income countries need to crack on with structural and institutional reforms for productivity-based growth. This applies to Malaysia, Thailand and China (especially its coastal provinces). Reforms to the bumiputera policy and government-linked companies in Malaysia, the financial sector, state-owned enterprises and the hukou system (that restricts labour movement) in China, and property rights and the rule of law in all three countries, come to mind.

Low middle-income countries still have to go farther with getting the basics right, just as they have more room for catch-up growth. But they must also embark on the simpler, less institutionally demanding second-generation reforms. That applies to India (especially its more advanced states), Sri Lanka, Indonesia, Philippines and Vietnam.

Finally, the middle-income trap is as much about politics as it is about economics. Second-generation reforms are politically more sensitive than first-generation reforms, for they get closer to the heart of vested interests and political systems. That is why factor-market deregulation generally lags far behind product-market liberalisation.

Labour abundance has helped 'globalising Asia' to achieve faster catch-up growth than Latin America and the Middle East. That puts the region in a better starting position to avoid the middle-income trap.

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THE BOTTOM LINE

US prosperity paradox: there is plenty, yet not enough

IF proverbial Martians descended on Earth and toured America's crowded shopping malls, travelled its congested highways and sampled its technological gadgets – from the many cable channels to ubiquitous smartphones – these visitors would be hard-pressed to describe the US as poor or its economy as failing. The truth is that, even in its current unsatisfactory condition, America is an immensely wealthy society. It produces US$16 trillion in annual goods and services, provides 136 million jobs and supports a median household income of US$50,000.

I don't cite all this to excuse our economic faults. But it's important to keep perspective: for most Americans, the economy is performing adequately, though obviously not spectacularly. Despite a woeful 7.6 per cent unemployment rate, it remains true that 92.4 per cent of workers have jobs. We have two distinct economies: one that inflicts acute pain on a minority of Americans but inspires mass political and media criticism; and the other creating huge wealth for the majority but virtually ignored. Though distress is concentrated, unhappiness is widespread.

The standard explanation for this is well known. America expected better. The recession was (after all) the worst slump since the Great Depression of the 1930s. Millions of Americans lost their homes. Long-term unemployment exceeding six months reached post-World War II highs. Financial institutions once thought impregnable (Lehman Brothers, Merrill Lynch) collapsed or were saved by shotgun mergers. These surprising events weren't supposed to happen. People were scared, and they remember.

Up to a point, I believe this story. Indeed, I've peddled it repeatedly in print. But on reflection, I don't think it fully captures what happened. Something beyond dashed expectations has amplified fears and anxieties.

The Great Recession seemed to create random victims, so that even those who had jobs, didn't lose their homes and saw their retirement accounts recover – that is, most Americans – felt threatened. Perhaps the very rich were spared (because their daily lives were barely affected) along with the very poor (because their lives were already chaotic). But from the lower to the upper middle class, the lessons seemed dire. If it happened once, it could happen again. It didn't happen to me last time; it could the next.

ROBERT SAMUELSON

For most Americans, prosperity means more than getting richer. Sure, people want higher incomes and living standards. But they also want a sense of control over their lives. Most Americans would, I suspect, sacrifice some income in exchange for a more secure lower income. They want stability, and for years, most Americans unconsciously took bedrock economic stability for granted, though most would deny this. Jobs could be had most of the time, because recessions were infrequent.

This confidence is gone and, with it, the sense of control. Americans no longer presume bedrock stability. Two developments explain why. First is the changed behaviour of big companies. Since the early 1980s, they've increasingly retreated from career jobs, as political scientist Eva Bertram notes in a report for Third Way, a think tank. Companies fired workers more readily. In 1983, the median job tenure – the time with one employer – of men 55 to 64 was 15 years; by 2010, it was 10 years. Second is a loss of faith in the government's economic management. For years, public policies seemed to neutralise eroding private job security by minimising recessions. The Great Recession demolished this comforting notion.

Our Martian visitors would discover that America's mass abundance is mixed with mass anxiety. There's a broadly shared sense of vulnerability, which helps explain why discontent is not confined to the distressed. It also accounts for the view that the Great Recession and its aftershocks, unlike previous post-World War II slumps, constitute "an assault on the middle class". Perhaps continued recovery and more jobs will erase present doubts, though I suspect that any reversal will, at best, be partial because the recession's psychological effects are pervasive.

Americans are defining prosperity down, to paraphrase the late Daniel Patrick Moynihan. They are aligning attitudes with experience. The consequences are profound for our economy and politics. Judging themselves more exposed to business cycles, Americans have become more hesitant and precautionary in their spending. These worries and the resulting restraint are both a cause and consequence of the weak recovery.

Politics increasingly involves scapegoating and a search for greater public protections against rising private insecurities. Obamacare is perhaps an unintended prototype of this quest, illustrating how difficult it can be. The experience in Europe, with more public protections and a darker economic outlook, teaches a similar lesson. The prosperity paradox is this: America has plenty of it, but not enough to soothe social conflict and allay economic anxiety. – *The Washington Post Writers Group*