

Executive Summary

Summary >>>

> Turning Point

Singapore is at a turning point. We have gone beyond the phase of rapid economic expansion. Globalisation, the rise of China and the Asian Financial Crisis have changed our environment fundamentally. But many new opportunities present themselves. We need to reposition ourselves to compete and to exploit these new opportunities.

External Environment

The Asian Financial Crisis in 1997 abruptly ended two decades of exuberant growth in the region. Southeast Asia is still dealing with its political and economic aftermath. On top of this, the recent US recession marked the end of a long boom, and the beginning of a new period of more uncertain global growth.

After September 11, 2001, the global economic malaise was compounded by the war on terrorism, and, within our region, by political and security uncertainties, particularly the rise of political Islam and the threat of extremist Islamic terrorist groups, as highlighted by the bombing in Bali in October 2002. Just as Singapore had earlier thrived with the growth of our neighbours, now we share their anxieties.

Meanwhile, globalisation and rapid technological advances have changed the way we live and conduct business. Market conditions are constantly changing. Competition for talent and investment is intense.

But it is also a more collaborative world in which countries rarely make entire products from start to finish. Design, production, distribution and servicing are each split into segments and spread all over the world. Every country has to carve a niche for itself by excelling in some areas, while linking up with other countries in the supply chain. In this new age of globalisation, Singapore's lack of a domestic hinterland becomes much less of a disadvantage.

China has rapidly become a major producer in the world economy and India is an

emerging player. Even as they offer major new markets, they have changed the competitive landscape for trade and foreign investment. Countries, industries, businesses and workers face dislocation, and have to restructure to secure opportunities with these large new players. Eventually, however, China's and India's growth will bring prosperity to Southeast Asia, which has always been the case historically.

Domestic Challenges

Domestically, Singapore is also at a crossroads. Our economy is already at an advanced level, with our per capita Gross Domestic Product (GDP) at developed country levels. We cannot expect the same dramatic transformation as we achieved over the last two decades, or the same rates of growth in output and living standards.

Restructuring will speed up. There will be more changes to our economy, more companies turning over. Our workers will experience painful displacement and structural unemployment, which were never serious problems before. This will especially affect older, less-skilled workers who missed their secondary education, but even white-collar workers and professionals will not be spared.

Our fiscal position will become tighter. With a slower growing economy, revenue will be less buoyant. Against this, there will be pressure to increase government spending on social needs, such as healthcare. We are unlikely to accumulate budget surpluses as easily as we used to.

> The Way Forward

Overall, we have made tremendous progress since the last major recession in 1985. Our per capita income has doubled. We have attracted many world-class companies to use Singapore as a total business centre. We have developed an advanced logistics and transport infrastructure, and a reputable financial centre. However, our competitors are striving to do the same. Other Asian cities and

countries are vying to attract investment and become business hubs. The economic race has become tougher.

In this fundamentally altered environment, Singapore cannot fall back on tried and tested strategies. The ERC's task, therefore, was to fundamentally rethink our strategies to propose ways to tackle the challenges ahead, and to create a better future for ourselves and our children.

While it is right to be sober about the challenges we face, we have reasons to be confident. Our fundamentals remain strong. We are better prepared than many other countries to confront the new challenges. The ERC's recommendations will help us remake and upgrade the Singapore economy. We must steel our collective resolve to stay the course and press on with the necessary changes.

Building on Our Strengths

We need to build on the strengths that we have developed over the years, to gird Singapore for the future.

We have kept our society and economy open, flexible and adaptable. We have promoted competition and relied on free market forces, to enable the private sector to create wealth. We have welcomed global talent.

We have pursued prudent macroeconomic policies. The Government has spent within its means, avoided budget deficits, and progressively lowered taxes. We have a stable Singapore dollar and one of the lowest inflation rates in the world. These policies have sustained growth and preserved the value of Singaporeans' savings.

We have a worldwide reputation for excellence, reliability and honesty. The Government and Judiciary are transparent and trustworthy. People know that in Singapore, their property, including their intellectual property (IP), will be protected. Here their investment, their businesses and their families will be safe.

We have built first-class, up-to-date infrastructure, well-connected to the world. Businesses can rely on the port and airport, the telecommunications and public utilities, and the financial system. Everything works.

We have invested heavily in education and training. To reskill working Singaporeans, we have expanded continuing education and training.

We enjoy harmonious tripartite relations. A strong and responsible labour movement takes pride in being an equal partner in Singapore's progress, alongside employers and the Government. This has helped to convince workers to support difficult but necessary policies that promote their long-term interests.

Finally, we have upheld meritocracy as a cornerstone of our society, and developed an ethic of individual self-reliance. But we have also moderated the free market system with social equity and full opportunities for all. The Government has heavily subsidised the provision of housing, education and basic healthcare, enhanced Singaporeans' assets and enabled them to share the wealth they have collectively helped to create.

> A Globalised, Entrepreneurial and Diversified Economy

By remaking and upgrading ourselves, we will make Singapore a leading global city, a hub of talent, enterprise and innovation. Singapore will become the most open and cosmopolitan city in Asia, and one of the best places to live and work.

In another decade and a half, Singapore will connect China, India and Southeast Asia, and beyond. We will become an Asian centre of choice for global talent, attracting skilled technicians, managers, entrepreneurs and creative people from all over the world. We will be a creative and innovative society, always eager to try out new ideas and change for the better, with a culture that respects achievement in the sciences and the arts.

Globalised

In 2018, the US and the EU will still be the largest economies in the world. But the combined GDP of East Asia will exceed the US or the EU. China's transformation will be well advanced. India, too, should have made progress reforming its economy and raising its growth rate. Southeast Asian countries should have resolved their problems and returned to the path of stability, growth and development. Similarly, Japan should have shaken off its economic troubles, and be growing again.

Singapore will be a key node in the global economic network, linked to all the major economies. Within Asia, we will be a major hub serving the region, together with others like Hong Kong and Shanghai. Our efforts to build links to China and India will be yielding dividends. Our companies would have established significant presence in them and the region.

Entrepreneurial

Singapore will have graduated into a knowledge economy. We will be a creative and entrepreneurial nation, open to new ideas, always ready to take risks and seize opportunities to create new businesses and blaze untrodden paths to success. Society will celebrate the success of those who dare venture into uncharted territory. It will accept those who meet setbacks, and encourage them to pick themselves up and try again.

Singapore will develop the full spectrum of risk capital to fuel entrepreneurship, bringing together savvy investors and dynamic entrepreneurs with promising ideas.

Diversified

We will have more engines of growth and a more diverse base of players, as we upgrade existing activities and companies and nurture new ones.

We will maintain the broad balance between manufacturing and services in the economy. But within each sector, we should see major transformation. Manufacturing will continue to move up the value chain, supported by strong research and development (R&D) capabilities. Services exports will have grown in importance. Singapore will be Asia's leading provider of world-class services, whether in traditional areas like trading and logistics, financial services, information technology (ICT) and tourism, or new areas like education, healthcare services and the creative industries.

Multinational corporations (MNCs) will continue to thrive in Singapore, basing high value-added activities, R&D and regional HQs here, to cover a broad hinterland and coordinate their regional and international strategies. They will co-exist with a stable of vibrant Singapore companies, some of which will be international players, while others will complement and support the MNCs and larger Singapore companies here.

A more entrepreneurial Singapore will see the emergence of many new companies, some engaging in activities at the frontiers of technology, others pursuing novel business ideas in more traditional areas. Through innovation, creativity and technology, they will create value and carve out market niches for themselves. Over time some will upgrade and grow into industry leaders in their own right.

Jobs

Our education reforms and training initiatives would have resulted in a globally competitive, creative and employable labour force.

Many jobs will be knowledge-intensive, while other jobs will require higher-level technical skills, as well as interpersonal skills. These will involve quality craftsmanship, complex and customised activities aided by computers, or servicing and maintenance of systems and equipment, or plants and buildings. Significant

numbers of jobs will still involve semi-skilled work, whether in high-tech industries or high-end services. They can pay well, but will often require workers to be flexible and adaptable.

Every Singaporean, regardless of age or educational level, who is willing to adapt to these job conditions and makes the effort to learn new skills, will find a place in the new Singapore economy.

Growth & Incomes

Barring external shocks, the economy has the potential to grow by an average of 3–5 per cent per annum, with real wages growing by 2–3 per cent per annum. This is lower than the 7.3 per cent average that we enjoyed since 1985. But it will be an achievement given our more mature economy and a more difficult environment. Few developed countries, at similar levels of per capita GDP, have managed to sustain growth exceeding 3 per cent. But we will achieve 3–5 per cent growth only if we persevere with restructuring and upgrading and provide an environment for local and foreign talent to flourish and grow. We have to become a hub for knowledge-based activities and talent like London, New York or Boston.

> Remaking Singapore

To realise this vision of Singapore as a leading global city – a hub in the new Asian and global economic networks, and an entrepreneurial and diversified economy – the ERC has identified six key areas which are critical.

Expanding External Ties

We need to embrace globalisation, and continue linking ourselves to the developed economies, to attract investment and expand our markets. While Asian markets are growing, and Southeast Asia makes an essential contribution to our economy, the main driver of our economic growth remains the US, the EU and Japan.

As a major trading nation, we continue to strongly support the multilateral trading framework of the World Trade Organisation (WTO). But we need to supplement this with bilateral Free Trade Agreements (FTAs) with key trading partners, to secure our economic ties and access to their markets.

The emergence of China and, to a lesser extent, India will pose enormous challenges as well as offer promising opportunities. We must respond decisively to both. Regionally, we must continue to work with our ASEAN partners toward closer economic integration and strengthen our competitiveness as a group. And we must strengthen our hub status within our wider hinterland, which encompasses a radius of seven hours' flying time from Singapore, spanning India to Northeast Asia and Australia.

Competitiveness and Flexibility

To stay competitive as an economy, we must offer investors that extra plus, in terms of superior capabilities and an efficient and flexible business environment.

The business environment that supported past growth is no longer sufficient. We must take decisive steps to enhance it and improve our microeconomic competitiveness.

First, we must keep the burden of taxes on the economy as low as possible, especially direct taxes on companies and individuals. The ERC has recommended, and the Government has agreed, to bring the top rates of corporate and income taxes down from 25 per cent to 20 per cent over the next two years. To partially make up for the loss in revenue, the Goods and Services Tax (GST) should be raised from 3 per cent to 5 per cent.

Second, we must refocus the Central Provident Fund (CPF) back to its core purpose of providing for the basic financial needs for the majority of our people, including saving for basic retirement, home-ownership and medical needs. To be sustainable in the long term, the CPF cannot impose an unnecessarily heavy statutory burden on companies, especially when they employ older workers.

The Government has already accepted the ERC's recommendations to refine the CPF system. The aim is to have a CPF structure which enables our workers to save enough for these basic financial requirements, while keeping employer costs to a minimum. The lighter the statutory burden on employers, the easier it will be for Singaporeans to be employed and the lower our unemployment will be.

Third, with business cycles becoming more volatile, the labour market and wage system must be made more flexible. This will help our workers keep their jobs when times are bad. Wages should be linked less to the seniority of a worker, and more to his performance and his company's profitability. We should also amend our legislation to allow companies to adopt more flexible working and compensation arrangements, without compromising the safety, health and welfare of workers.

Fourth, we must price our infrastructure services and factors of production competitively. Whether it is telecommunications, port services, power supply or industrial land, we should encourage competition and ensure adequate supply, in order to promote efficiency, lower costs and raise standards. We cannot subsidise services below their true cost, but neither should we allow cost-plus or monopoly pricing to push up business costs.

Entrepreneurship and Singapore Companies

We must upgrade ourselves and make Singapore a knowledge economy powered by innovation, creativity and entrepreneurship.

Apart from knowledge and technical skills, Singaporeans need the right mindset to thrive in an environment of rapid and unpredictable change. In particular, we need to nurture the spirit of entrepreneurship and creativity. We need to

strengthen incentives for Singaporeans to be innovative and venture beyond their comfort zones. We need to welcome diversity, accept failure, and embrace broader notions of success.

We need to refocus safety nets on the truly needy, and minimise the people's dependency on the State. An individual's success must depend on his own efforts and abilities, rather than on handouts from the State. Our people and our companies will then have every incentive to be enterprising, and the competition will strengthen the players and produce winners who can hold their own.

Promoting entrepreneurship and creativity will take many years. The Government should therefore designate a Minister (or Minister of State) to be responsible for promoting and driving the initiatives to develop a more entrepreneurial Singapore.

We want strong Singapore companies which can develop new ideas and businesses, tap new export markets, broaden our economic base and make our economy more resilient. They will complement the MNCs, and help to support and anchor MNCs here.

These Singapore companies include the Government-linked companies (GLCs), many of which have built up significant technical capabilities and management depth, and are among the leading firms in their industries. All GLCs should be run on strict commercial principles and be subject to the discipline of the market. GLCs which lack a strategic rationale or the potential to grow into regional or international players, should be divested.

We must foster the growth of enterprising startups and small and medium-sized enterprises (SMEs), whether they are high-tech or low-tech. We have to minimise rules and procedures that stifle enterprise and discourage small players. Ministries and statutory boards should avoid spawning companies to provide services which private firms can provide, and crowding out the private sector.

We must find innovative, market-oriented ways to encourage the early-stage funding of deserving companies, develop cashflow financing, and grow the equity and debt capital markets to marry global investors with companies from China, India and across Asia.

We should encourage major Singapore companies with the scale and organisational depth to venture abroad, to tap opportunities in regional markets. The larger companies can lead clusters of enterprises, including SMEs, overseas.

As our external wing grows, overseas income will become more important to companies and individuals. We must find more effective ways to eliminate double taxation of foreign source income that is remitted to Singapore.

There exists a group of small, traditional companies, particularly in retail and personal services, which have difficulty adapting to the knowledge economy. We must help them rationalise and upgrade, to meet the needs of a new generation of customers.

While we do all we can to encourage enterprise among Singaporeans, we also need to attract foreign entrepreneurs and SMEs to make Singapore an entrepreneurial hub. Singapore can offer a funding platform, excellent connectivity, as well as interaction with the large base of MNCs here. We can be a hub not only for MNCs, but also for SMEs and startups from all over the world, which seek to expand their networks or to penetrate Asian markets.

Twin Engines: Manufacturing and Services

Manufacturing will continue to be an important growth engine. To hold our own in this increasingly competitive sector, we must maintain our cost competitiveness, equip our people with relevant skills and expertise, and continue to attract high-quality investments.

We must strengthen and upgrade the four key manufacturing clusters (i.e. electronics, chemicals, biomedical sciences, and engineering) which now form the core of our high value-added activities. We must also develop new capabilities in emerging technologies such as micro-electromechanical systems, nanotechnology and photonics.

Manufacturing will become more knowledge- and research-intensive. We must strengthen R&D efforts in the research institutes, universities and industry, so as to create and exploit IP. MNCs should make Singapore a key node in their global R&D networks, and should be encouraged to base major R&D and product development efforts here.

While we maintain manufacturing as a growth engine, we need to promote our services sector more actively, particularly exportable services, as a second growth engine. As China and India grow and prosper, their expanding middle classes will seek high-end, better-quality services, whether educational, medical, or financial.

We are well-placed to meet part of this demand and be a regional services hub. We must continue to upgrade, liberalise and develop established industries like trading and logistics, ICT, financial services and tourism. We should also promote promising new areas such as healthcare, education and creative industries.

Unlike manufacturing, where the Economic Development Board (EDB) is the single promotion agency, services are too varied to be promoted by a single champion. Services are also subject to more complex regulations, because of their greater implications for our social policies. Wherever possible, we should relax these regulations in order to strike a better balance between our economic and social objectives. The ERC recommends that the Government set up a Ministerial Committee on Services to drive the development of these services industries.

As both manufacturing and services will become more innovation and knowledge driven, we should enhance the protection and commercialisation of IP. We recommend setting up an IP Academy and promoting Singapore as an IP management centre.

People

To realise all these strategies, we must develop our people to the full. Competitive advantage now rests in talent and information, rather than natural resources or geographical location. We must continue to invest heavily in education, and further improve our education system. Every Singaporean must be equipped with the necessary skills and know-how for a knowledge economy.

We must encourage a greater diversity of talents starting with pupils in school. We must also develop a stronger research culture among young Singaporeans, and nurture those with a passion for research through exposure and postgraduate education.

Our emphasis on developing services industries will require changes to our manpower planning and training priorities. We will continue to equip people with hard technical skills to support a vibrant manufacturing sector. But we also need to train enough people with the capabilities and knowledge to work in the new services industries as these expand.

We must continue to welcome global talent to augment our indigenous talent pool. While we have many talented Singaporeans, the pool is much smaller than in cities like London, Shanghai, Boston or San Francisco which draw people from larger hinterlands as well as from all over the world. We need a wide range of talent to supplement our own. Our openness to global talent will be a key competitive advantage for a Singapore that aspires to become a leading global city.

More and more Singaporeans are venturing to live and work abroad, in all the major cities in the world. We must maintain links with this overseas network, and tap their contacts and expertise. The ERC has proposed, and gladly notes, the setting up of the Majulah Connection to engage overseas Singaporeans. Such a network will help a valued part of our Singapore family to contribute to the nation, and stay rooted to Singapore.

Restructuring

Economic restructuring will inevitably have a major impact on Singaporeans. Job displacements will be more frequent, and employment structure and work arrangements will need to respond flexibly to change. Structural unemployment will be a growing problem, as people whose skills have become redundant fail to find new jobs. We must manage the dislocation and difficulties that economic restructuring will bring, and help Singaporeans make the urgent and essential changes.

Training and retraining remain critical to helping Singaporeans upgrade and update their skills, and ensure that they remain employable. The ERC recommends that the Government set up a national Continuing Education and Training (CET) body to oversee the promotion and development of CET in Singapore.

We must also help Singaporeans who are out of work find new jobs as quickly as possible. We need to shift our mindsets and expectations, and consider a wider range of job possibilities. We need to counsel retrenched workers, to identify their skill sets and training needs. Some jobs need to be redesigned and upgraded to make them more attractive to Singaporeans. We should improve our job matching efforts, and also promote part time work.

But despite our efforts, some retrenched Singaporeans will take longer to find re-employment and, meanwhile, will need assistance. The ERC recommends that the Government refine its assistance schemes, focussing on Singaporeans who need help most, giving the most help to those who make the best effort.

A minority of Singaporeans will find it hard to keep up with the changes, notwithstanding all the help they will get. But our sustained emphasis on skills training and upgrading will minimise their numbers, and so long as our economy is growing, all will share in the fruits of our success.

> Immediate Issues – Lowering Costs, Staying Competitive

While we make changes to our economy in the six key areas listed above, we cannot ignore the current slowdown. The Singapore economy has still not fully recovered from the 2001 recession. Our immediate prospects are clouded by uncertainties in the region, the slowdown in the G-3 economies, the prospect of war in Iraq and the significant challenges posed by China. While there is a reasonable chance that the Singapore economy will improve in 2003, full recovery will probably take place only in 2004.

We must press on with our longer-term strategies, but implement them carefully, taking into account prevailing conditions. Hence the Government decided to phase in the GST increase to lessen the burden on Singaporeans, and help them cope with the current uncertainties.

More importantly, we must continue to manage our business costs carefully. This will help us remain competitive and give more time for the longer-term restructuring to work.

CPF Restoration

Wages form the largest component of that part of business costs which we can influence. The ERC supports the National Wages Council's (NWC) recommendation for continued wage restraint. However, it does not recommend an across-the-board wage freeze. This would be rigid, distort the labour market, and work against the interests of workers.

Instead, the ERC recommends that the Government defer for two years, any further restoration of the CPF contribution rate, beyond its present level of 36 per cent. This will avoid adding to the statutory burden on wages for employers at a difficult time, and help reduce further job losses. It will also send a strong signal to investors that Singapore is acting decisively to strengthen its competitive position.

The Government has stated its intention to restore the CPF contribution rate to 40 per cent, when economic conditions permit. The ERC supports a progressive restoration of the CPF rate to 40 per cent after the two-year period. However, the timing and pace of the restoration should take into account economic conditions then, especially Singapore's cost competitiveness vis-à-vis other countries.

Two other CPF changes were linked to the restoration of the CPF contribution rate: the reduction in the salary ceiling for both employers' and employees' contributions from the current \$6,000 to \$5,000, and the lowering of the employees' contribution rate for workers aged 50-55 from the present level of 20 per cent to 16 per cent. The ERC recommends that the Government proceed to start phasing in these two changes, and not defer them for two years. These two changes will lower the statutory burden on the wages of professionals and older workers, and thus help these groups to keep their jobs or find new ones.

Foreign Worker Policies

At the same time, we must ensure that our foreign worker policies are flexible enough to allow companies to employ the workers they need, especially those which cannot find enough Singaporean workers. This will help keep their overall costs of production down and make their operations here more viable. However, businesses cannot compete on low wages alone. To survive and prosper, they must continually upgrade their capabilities and improve productivity.

While we must keep our doors open to foreign workers, we must carefully manage the inflow to benefit our economy and our people. An appropriate levy will regulate the demand for foreign workers, and ensure that they complement rather than displace Singaporean workers, and ultimately create more jobs for Singaporeans.

Land and Other Business Costs

In addition, we must manage the other components of business costs. The opening up of the electricity market to competition has helped lower tariffs for consumers, and especially the large users. JTC's recent move to lower industrial land prices and posted rents will not only help existing businesses tide over the current difficulties, but reassure new investors that the Government will make available sufficient industrial land at internationally competitive prices for their projects.

Tackling Unemployment

Helping businesses to do well is the best way to create more jobs for Singaporeans. But we must also assist Singaporeans more directly to cope with the current economic difficulties. The measures proposed earlier to help retrenched Singaporeans find new work, and assist those who despite their best efforts still cannot find work, will be especially needed during a slowdown.

These recommendations on the CPF, foreign worker policies, industrial land costs, and reducing unemployment will address the immediate challenges facing Singapore. They should be implemented as quickly as possible. They also support our longer-term strategies, and will lay the basis for the strategic shifts that we need to make.

> A Better Future for All

Achieving this future Singapore will require solidarity and hard work. We must deal with immediate problems without losing sight of long-term challenges. Being small and open, we must expect rough weather from time to time. However, by persevering with sound and imaginative strategies, and staying united and resolute, we will emerge stronger.

In many ways, globalisation is an advantage to a city-state like Singapore. We will become a nation that is more relevant and valuable to the world, and a society that is more cohesive with a national character of our own. Together, we will create a better future for ourselves and our children, in a Singapore which we will all be proud to call home.