

Fiscal and monetary policies

Chapter 6 >>>

Summary

There is a worldwide trend towards lower direct taxes. We must therefore keep the burden of taxes on the economy as low as possible, especially the burden of direct taxes on companies and individuals, to remain competitive, attract foreign investment and talent, and encourage Singaporeans to create wealth. To balance the budget, we must make up by raising GST.

> Key Recommendations

Fiscal and Monetary Policies

- Continue to pursue rational, prudent macroeconomic policies. Maintain fiscal discipline and a stable Singapore dollar.

Reducing Direct Taxes

- Cut direct tax rates (corporate income and personal income tax rates) to 20 per cent over the next two years to signal Singapore's intent to compete for investment and talent across all sectors.

Towards lower direct taxes and an attractive tax regime

Raising GST

- Raise the GST from 3 per cent to 5 per cent as soon as possible. Retain across-the-board coverage of GST, with as few exemptions as possible.
- Provide an offset package to help Singaporeans adjust to the GST increase and ensure that most households, and all lower-income households, are no worse off during the transition.

Corporate Tax Reforms

- Introduce group relief to allow local corporate groups to offset unutilised losses and excess capital allowances of one company against taxable profits of another company within the same group.
- Shift from a full-imputation system to a one-tier corporate tax system to simplify tax administration and compliance.
- Exempt business-related foreign source income for companies from tax.
- Allow more generous tax treatment of intellectual property.
- Review and rationalise withholding tax provisions to ensure that our withholding tax regime does not discourage cross-border transactions and disincentivise people and companies from locating their activities in Singapore.
- Consider giving tax deductions for mergers and acquisitions, to encourage consolidation in heavily fragmented industries.
- Consider giving tax deductions for selected expenses incurred prior to the startup of new businesses and in the listing of companies, to help promote enterprise development.

Personal Tax Reforms

- Exempt individuals' interest income earned from onshore bank deposits from tax.
- Consider tax exemption for individuals' foreign source income remitted back to Singapore.
- Enhance tax treatment of stock options to encourage employers to use stock options as a performance-linked compensation tool.
- Exempt employment income attributable to time spent outside Singapore for 'temporary tax residents' who have not been living in Singapore for a long period before their current jobs.
- Exempt tax on employers' contributions on behalf of expatriates to overseas private pension funds.

Enhancing the Tax Incentive Regime

- Enhance the tax incentive regime so as to attract new activities and promote growth in new areas.
- Streamline and rationalise current incentives for easier administration and compliance.

Introduction

The competition for foreign direct investment and global talent is intense and will grow sharper. Our strategy must be to create an environment to foster the growth of new economic activities, bring in new investment and increase economic growth. This is the only sustainable way of creating good, well-paying jobs for Singaporeans.

One key factor is a stable macroeconomic environment, underpinned by sound monetary and fiscal policies. The Government must keep the budget in balance, the currency stable, inflation under control and interest rates low.

Another important factor is keeping the tax burden on the economy as light as possible, especially the burden of direct taxes on the production of wealth. Hence the imperative to restructure our tax regime, and shift from direct to indirect taxation.

We must also enhance our tax incentives, to attract businesses and talent in priority areas.

> Fiscal and Monetary Policies

At the macro level, the rational, prudent macroeconomic policies that we have consistently pursued have served us well.

Monetary Policy

Monetary policy in Singapore has centred on the exchange rate, which is focused on maintaining a stable Singapore dollar and ensuring low inflation for sustained economic growth over the medium term. The Government has refrained from pursuing competitive devaluation of the domestic currency to boost export competitiveness, choosing, instead, to address cost competitiveness issues directly.

This policy has delivered results. Our inflation is one of the lowest in the world. We have maintained confidence in the currency and the value of Singaporeans' CPF savings. The stability of the Singapore dollar promotes investment and exports by providing a conducive business environment for long-term planning and investment decisions, and minimising earnings losses arising from exchange rate volatility. It has also contributed to the continued development of Singapore as a major regional trading, manufacturing and financial hub.

The ERC strongly supports the continuation of this approach to monetary policy. Financial markets are becoming even more integrated globally, as cross-border flows increase. Conducting monetary policy through the exchange rate will become increasingly challenging. The Government must ensure that the exchange rate policy continues to be aligned with underlying economic fundamentals, and stays focussed on the objective of medium-term price stability.

Fiscal Policy

In fiscal policy, the Government has adopted a disciplined, prudent approach. First, it has consistently kept the budget balanced, achieving modest budget surpluses in normal years, and building up our reserves over time. We have eschewed government borrowing and deficit spending that have led to inflation and a heavy burden of national debt in many countries.

Singapore should maintain this conservative fiscal policy, spending within our means and aiming for a modest budget surplus over a business cycle. We may not be able to enjoy easy surpluses as in the past, but we cannot afford to live on borrowing, or to run down our hard-earned reserves. Given the more uncertain environment, we must continue to build up our reserves whenever we can, for rainy days.

Second, we have maintained a lean Government. By focussing spending on essentials, we have kept total Government spending below 20 per cent of GDP, compared to 40 per cent or 50 per cent in many developed countries. This has minimised the overall burden on the economy, and allowed the Government to progressively reduce tax rates.

Looking ahead, it will become increasingly difficult to keep spending down and balance the budget. With slower growth, revenues will be less buoyant. Yet there will be more pressure on public expenditures, especially in healthcare and other social needs. Singapore's population is ageing, and expectations of higher-quality public services continue to rise. Singapore will have to continue to invest in its security and economic infrastructure, to create a more attractive environment for investment and talent.

Nevertheless, we must endeavour to keep the Government as lean as possible, spend only on what we need to and contain expenditures at the lowest possible level.

> Shifting from Direct to Indirect Taxes

Given the revenue needs of the Government, the tax system should raise this amount in the most efficient and equitable way. We need to shift from direct to indirect taxation, in order to keep income taxes on individuals and corporations as low as possible. The tax regime is an important factor in determining how attractive Singapore is to investment and talent.

Reducing Income Tax Rates

While Singapore has one of the lowest income tax rates in the world, the gap is narrowing. Countries all over the world are lowering their income tax rates. Ireland, for example, recently brought its corporate tax rate down from 20 per cent to 16 per cent, and intends to bring it further down to 12.5 per cent in 2003. Germany cut its corporate tax rate from 40 per cent to 25 per cent in 2001. Even in countries where the headline tax rates are high, there could be generous tax breaks and incentives that lower the taxes that companies and individuals actually pay.

As global competition intensifies, a pro-growth tax system to facilitate the creation of new economic activities and attract new investment becomes increasingly vital to Singapore's continued economic survival. We need a competitive tax system to ensure the sustained generation of good, well-paying jobs for Singaporeans well into the future.

We recommend that Singapore cut corporate and personal income tax rates to 20 per cent over the next two years. With these tax cuts, companies and individuals will be able to retain a higher portion of the wealth generated and thus be encouraged to create new wealth and growth in Singapore. Such a decisive move will strongly signal Singapore's intention to compete for investment and talent across all sectors.

Raising GST

Given the need for continued fiscal prudence and the uncertain global economic and security climate over the medium term, it is important that the revenue loss arising from the direct tax cuts be made up, at least in part, as early as possible. To do this, Singapore should continue its shift from direct taxes to indirect taxes - a direction set out in the 1986 Economic Committee Report. Since its introduction in 1994, the GST has proved to be a resilient and vital source of revenue. Revenue from the GST enabled us to cut the corporate income tax rate from 30 per cent in Year of Assessment (YA) 1993 to 24.5 per cent in YA2002.

We recommend that the GST rate be raised from 3 per cent to 5 per cent as soon as possible. Even at 5 per cent, Singapore will continue to have one of the lowest GST rates in the world. The GST should continue to be applied at the same rate across the board on all goods and services, with as few exemptions as possible. This is because higher-income households spend more on essential items than lower-income households, and exempting these items will benefit higher-income households more. It would be far better to have GST across the board, and then help the lower-income groups through targeted assistance schemes.

GST Offset Package

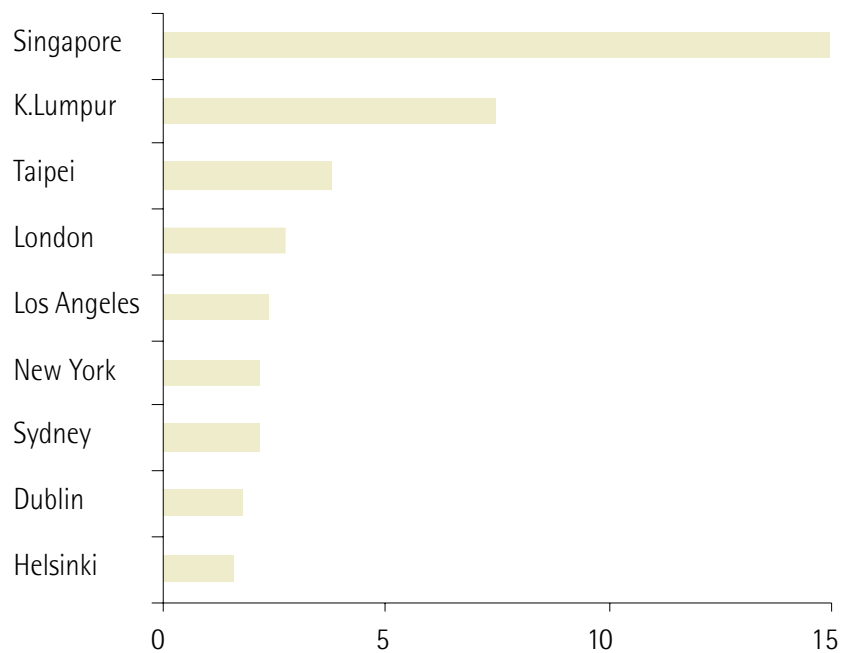
As it will take time for the proposed tax changes to bring in more and better paying jobs, we recommend that a GST offset package, similar to the package of measures introduced in 1994, be introduced to help Singaporeans adjust to the GST increase. The offset package should ensure that most Singaporeans and all lower-income households are no worse off during the transition. The Government should similarly set up a committee to combat profiteering and undue price increases, as was done in 1994.

Still a Progressive Tax System

Although the shift from direct to indirect taxes reduces the progressivity of our tax system, on the whole, Singapore still maintains a very progressive tax regime. Before the changes to the tax system, the total tax burden of a high-income household¹ was about 15 times that of a low-income household. In contrast, the tax burden of high-income households is only around two times that of the lower-income in many European and US cities. This is mainly because of high consumption taxes, for example, 22 per cent VAT in Finland, 21 per cent in Ireland and 17.5 per cent in the UK. In addition, most working adults in these countries pay income tax, unlike in Singapore where two-thirds of working adults do not pay any income tax. The corresponding ratio of tax burden between high- and low-income households in Kuala Lumpur and Taipei is higher than the US and Europe, but still significantly lower compared to Singapore [see [Chart 6.1](#)].

¹ The 'high-income' assumption is based on the scenario of a one-earner (with CEO-type salary) married couple with two children, owns a car, and a private apartment. The 'low-income' assumption is based on the scenario of two-earner married couple (with factory-worker salary) with two children, owns a small-sized car in Europe/US, but uses public transport in the Asian countries, and rents an apartment.

Chart 6.1 : Ratio of Tax Burden of High-income to Low-income



In fact, after taking into account government transfers, such as CPF top-ups and New Singapore Shares, the lower- and middle-income households effectively pay 'negative' tax. For example, households in the lowest 30 per cent income bracket faced an average net tax burden of -33 per cent of household income in the year 2000². Those in the next 30 per cent income bracket faced an average net tax burden of around -8 per cent of household income.

> Corporate Tax Reforms

To make our business environment more attractive, significant changes would also need to be made to the corporate tax system to reflect changes in the corporate landscape and simplify tax compliance for companies.

² The taxes and charges included in this computation include property tax, GST, water conservation tax and other expenditure-related taxes (e.g. alcohol and tobacco). The government transfers include CPF top-ups, New Singapore Shares and the various non-tax rebates, for example, rebates for HDB rentals and service and conservancy charges.

Group Relief

As economies mature, corporate groups will become increasingly common. Our current tax system taxes each company within a corporate group as a separate entity, leading to economic irrationalities such as the taxation of companies that register losses on a group basis.

In recognition of the fact that companies within a corporate group are essentially one economic entity, and to encourage risk-taking and enterprise, we recommend introducing group relief for local corporate groups. A group relief system allows the unutilised losses and excess capital allowances of a company to be offset against the profits of another company within the same group.

With group relief, companies would be better placed to embark on new and risky ventures as they would be able to offset any losses from new ventures against the corporate group's taxable profits from its more established business lines. At the same time, the corporate group can enjoy the benefit of limited liability for its new subsidiaries. This provides companies with a more supportive environment for innovation and risk-taking.

One-tier Corporate Tax System

We also recommend shifting from a full-imputation system to a one-tier corporate tax system. Under the one-tier system, tax would only be imposed once at the corporate level and dividends would be exempted from tax. This simplified system would reduce the compliance costs for companies and simplify tax administration. Together with the group relief regime and the corporate income tax cut, the one-tier system would make more profits available for distribution as dividends.

Exemption of Foreign Source Income

Most foreign source income currently received in Singapore does not attract further Singapore tax. This is because the existing tax credit system allows for foreign tax paid on foreign income to be relieved against Singapore tax upon remittance. To simplify procedures and encourage the export of local services, the Government should exempt business-related foreign source income for companies. By helping companies manage their business-related foreign source income from Singapore, this will boost Singapore's bid to become the business hub of choice in an increasingly globalised world.

Intellectual Property (IP)

In the knowledge economy, intellectual property and other intangibles will drive growth. As a late-starter in the IP industry, our tax system must actively encourage investment generating IP assets that could reap significant economic returns when they are commercialised.

R&D is a significant element of the investment that create IP. Currently, we allow tax deductions for R&D expenses incurred in-house or R&D expenses incurred by approved R&D organisations that conduct their research activities in Singapore. However, these concessions may not be sufficient as companies increasingly conduct research activities in collaboration with offshore affiliates or the R&D outfits of other companies.

We therefore recommend that deductions for R&D expenses incurred in the creation of IP be liberalised to include R&D outsourced to any organisation, local or foreign (instead of only local organisations).

Besides building up our own IP creation capabilities, acquisition of IP from overseas companies is another way to build up a critical mass of IP in Singapore. As IP is critical for the next stage of Singapore's economic growth, we recommend that the writing down allowance for acquisition of IP be made automatic and across the board, similar to the current practice for physical assets.

Withholding Tax Mechanism

Withholding tax is a mechanism to facilitate the collection of taxes from non-residents for income derived in Singapore. This is done by requiring the Singapore payer to withhold taxes due on the non-resident, on behalf of the Inland Revenue Authority of Singapore.

There are, however, certain problems with the current withholding tax regime. First, many Singapore-based businesses have weaker bargaining powers vis-à-vis the non-resident suppliers and invariably end up bearing the cost of the withholding tax when those suppliers insist on net-of-tax payments. Withholding tax therefore inadvertently increases the cost burden on businesses. Second, the administrative requirements can be quite onerous, particularly for businesses that have numerous transactions with non-resident persons (for example, banks).

To ensure that our withholding tax regime does not discourage cross-border transactions and disincentivise people and companies from locating their activities in Singapore, we recommend a review of the withholding tax system. The review should rationalise the scope of the withholding tax provisions and study possible improvements to the administrative process.

Enterprise Development and Expansion

The cut in corporate tax rate will result in significant tax savings for small and medium enterprises. Many of these companies will pay effective tax rates of 5-10 per cent³. However, many of our local companies are unable to compete effectively on a global basis because of their small size and lack of sufficient funds. To compete effectively and capture business opportunities in the global marketplace, companies would have to pool their resources and capabilities together.

³ After taking into account the partial exemptions for chargeable income of up to \$100,000.

To encourage consolidation in heavily fragmented industries, the Government should consider a tax deduction, targeted at small and medium enterprises, for the front-end costs incurred in merger and restructuring exercises. The Government should also consider giving tax deductions for selected expenses incurred prior to the startup of new businesses and expenses incurred in the listing of companies to help promote enterprise development.

> Personal Tax Reforms

The mobility of talent has increased dramatically with globalisation. Today, there are few barriers impeding talent from moving to where opportunities and after-tax rewards are greatest. Besides lowering personal income tax rates, other changes to the personal income tax system would also be required to ensure that Singapore can compete effectively in the global war for talent.

Interest Income and Overseas Income of Individuals

To encourage individuals to locate their funds in Singapore and bring back their overseas funds, we recommend that the Government exempt from tax individuals' interest income earned from onshore bank deposits. In line with the recommendation to exempt business-related foreign source income for companies, the Government should also consider tax exemption for individuals' overseas income remitted back to Singapore. The additional savings and investment will generate significant spin-offs for the financial sector and the Singapore economy.

Employee Stock Options

Employee stock options have become increasingly prevalent tools for nurturing a vibrant entrepreneurial environment and improving corporate performance. The way we tax stock options in Singapore will therefore significantly affect our attractiveness as a talent magnet.

There are already several schemes in place to encourage employers to use options as a performance-linked compensation tool. However, to further strengthen the entrepreneurial culture in Singapore and compete effectively for talent, we recommend enhancements to the tax treatment of stock options, in view of the incentives available in other countries such as Ireland, the US and the UK.

Not Ordinarily Resident Scheme

To further enhance Singapore's attractiveness as a hub for international executives and centre for management of Asian business activity, we note that the Government has introduced a Not Ordinarily Resident Taxpayer scheme, which accords favourable tax treatment for persons who have not lived in Singapore for the preceding three years, but are currently based in Singapore. Under this scheme, income attributable to time spent outside Singapore is exempt from Singapore tax, subject to certain conditions. We recommend that the Government monitor this scheme, with a view to making enhancements.

Overseas Private Pension Funds

Currently, when an employer contributes to an overseas private pension fund on behalf of an expatriate in Singapore, the contributions are subject to Singapore tax. This makes us less attractive compared to countries such as Ireland, the Netherlands, and the UK where employers' contributions to approved funds are not taxable. We are also viewed less favourably vis-à-vis countries such as Hong Kong where all employer contributions for employees into private pensions are not taxable at the point of contribution.

With our current system, expatriates stationed here on overseas assignments may suffer double taxation as they are taxed once in Singapore at point of contribution and again, at the point of withdrawal in their home countries. To enhance our attractiveness as a talent hub, we recommend that employers' contributions on behalf of expatriates into overseas private pension funds be exempt from tax.

> Enhancing the Tax Incentive Regime

Tax incentives have played a pivotal role in Singapore's economic development strategy since the 1960s. For 30 years, tax incentives have helped attract investment and create jobs for Singaporeans.

We agree with the 1986 Economic Committee that Singapore should move towards a low corporate tax regime, with minimal tax incentives as a long-term goal. By doing so, we will avoid inefficiencies in resource allocation, ease tax administration and reduce compliance costs for businesses.

Nevertheless, we believe that tax incentives will continue to be an important tool for attracting new strategic activities to Singapore over the medium term and for maintaining competitive tax rates in sectors that traditionally operate in low tax environments.

We thus recommend two broad thrusts in enhancing our tax incentive regime:

- a. Enhance current incentives so as to attract new activities and promote growth in new areas.
- b. Streamline and rationalise current incentives for easier administration and compliance.

> Conclusion

The global environment has significantly altered. Competition is keener and change is happening at a faster pace. To succeed, we must anticipate and respond to these rapid changes. To this end, we have recommended significant adjustments to the tax system to strengthen Singapore's economic competitiveness and enhance our attractiveness to businesses and individuals.

Wages and the CPF

Chapter 7 >>>

Summary

With greater volatility in the business cycle, our labour market must be more flexible to keep structural unemployment as low as possible. The wage system must be more flexible, with wages linked less to the seniority of a worker, and more to his performance and his employer's profitability. In addition, we must refocus the CPF scheme on the basic needs of workers, to enable them to have enough funds for retirement, healthcare and housing, but reduce the statutory burden on employers, especially for older workers. These measures will ensure the financial security of our people, prepare ourselves for a rapidly ageing population, make our economy more flexible and responsive to market forces, and more dependent on individual drive and responsibility.

Greater wage and labour market flexibility, a more focused CPF system

Key Recommendations

Wage Competitiveness

- Continue to raise real wages of Singaporeans through higher productivity.
- Continue to ensure that real built-in wage increases lag behind productivity increases at all levels of the organisation.
- Wage adjustments to take into account global trends to maintain competitiveness vis-à-vis new players.

Enhancing Wage and Labour Market Flexibility

- Move away from the seniority-based wage system.
- Accelerate the implementation of the Base-up Wage System (to be renamed the 'Competitive Base Wage System') to replace the seniority-based wage system.
- Companies to build up the Monthly Variable Component (MVC) expeditiously. Those which have not yet created an MVC, and those which MVC makes up less than 2 per cent of workers' basic wages, to top up their MVC to 2 per cent immediately, out of their basic wages.
- To build up variable components in the wages of all levels of employees, with higher variable components for management staff, particularly top management.
- Introduce portability of medical benefits, either through a Portable Medical Benefits Scheme (PMBS) or Transferable Medical Insurance Scheme (TMI).
- Amend the Employment Act to empower the Commissioner of Labour to grant exemptions to companies that intend to employ flexible work arrangements.

Refocusing the CPF System

- Refocus the CPF on 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, and addressing the issues of labour market flexibility and lower-income earners.
- Defer restoration of the CPF contribution rate beyond its present level of 36 per cent, for two years.

Tripartite Cooperation

- Further strengthen tripartite cooperation for implementation of changes to ensure competitive wage levels and inject flexibility into wages and the labour market.
- The NWC to continue to issue wage increase guidelines and make proposals on wage-related issues, including wage flexibility, shifting from the seniority-based to productivity-based system and portable medical benefits.

> Introduction

Singapore is entering a different phase in our economic development, and the employment landscape is undergoing tectonic shifts that will affect all Singaporeans.

First, we must expect higher unemployment rates than we have been used to, even after we recover from the recession. We will not go back to a situation of virtually zero unemployment. Our economy is maturing. Continuing restructuring will mean higher levels of unemployment, both frictional and structural. There will be more turnover in the job market, and retrenched Singaporeans will find it harder to be re-employed, as the new jobs created demand new and different skills. This will be a particularly serious problem for our older, less-skilled workers who still make up a significant proportion of our workforce¹. Most developed countries have unemployment rates of around 5 per cent or higher. In Europe, unemployment is typically 8-10 per cent. If we can keep our unemployment rate around 3-4 per cent in normal years, we will have done well.

Second, in the longer term, our changing demographic structure will affect the employment landscape. The population is ageing rapidly, while life expectancy, already a high of 78 years, will continue to increase. The proportion of older Singaporeans will grow, and our labour market and employment practices must adapt to this. Singaporeans cannot expect to work for 40 years, retire at 62, and live off their savings or their children for another 20 or 25 years. We have to find ways to keep older people employed and working beyond their 50s or 60s, although not necessarily in the same job or at the same pay.

These trends underline the vital importance of labour market and wage flexibility to minimise unemployment, and cope with an ageing population. Our labour practices must be flexible enough to allow Singaporeans to start second, even third, careers. This requires us to move away from the seniority-based wage system. Employers will have to change their attitudes towards older workers, who will be paid according to their contributions. Our workers too, must adapt and moderate their expectations of their lifetime earning profiles. Initially, as

¹Workers aged 40 years and above with below secondary education accounted for 21 per cent (or 0.4 million) of total employment in 2001. The majority of the less educated workers aged 40 and above was in lower-skilled, blue-collar jobs. About 37 per cent were employed in production & related jobs. Another 23 per cent worked as cleaners and labourers.

they gain skills and become more productive, their wages will increase. But as they grow older and take on less burdensome or less taxing work, their wages will plateau and eventually decline, and they must expect this.

The CPF system, which is a major feature of the labour market in Singapore, should be re-focused on providing for the three key retirement needs of retirement income, healthcare and home-ownership, at a basic level, to avoid imposing an unnecessarily heavy statutory burden on employers, especially for older workers.

Wage Competitiveness

Wages form a key component of costs, and we must ensure that our wage level is internationally competitive. This is especially important because of the emergence of economies like China, with their low costs, ample talent, and industrious workers and professionals earning less than those in more developed economies, including Singapore. While the economic restructuring that is underway is unavoidable, we should not inadvertently force companies to retrench and relocate faster, by pushing up wage costs excessively and eroding our overall competitiveness. We should continue exercising wage restraint until the economy has fully recovered from the recession.

In the longer term, however, our aim is not to hold down or lower wage levels of Singaporeans. Indeed the fundamental objective of economic development is to raise the real wages of Singaporeans in order to improve their standard of living. But the only way for this to be sustainable is through higher productivity. This underlines the crucial importance of raising our productivity.

Our wages are already much higher than many countries. Our manufacturing workers, for example, are paid US\$7.14 per hour. In comparison, workers in China are paid US\$0.53 per hour while those in Malaysia are paid US\$2.68. Even manufacturing workers in Taiwan are paid less (US\$6.13 per hour). Nevertheless, we are still competitive because our productivity is higher too, so adjusted for productivity our labour costs are not excessive.

As wages adjust from year to year, we must make sure that annual built-in wage increases continue to lag behind productivity increases at all levels. This should remain a guiding principle for the NWC in recommending its annual wage guidelines.

Our wage adjustments must also take into account global trends, especially developments in emerging economies like China. Overall, if we can sustain growth of 2-3 per cent in real wages over the medium term, we will have done well.

Enhancing Wage and Labour Market Flexibility

On top of competitive wage levels, however, we need wage and labour market flexibility. The external environment is constantly and rapidly changing, and labour market demand is unpredictable. We need flexibility in the labour market so that workers can move smoothly out of old jobs and into new jobs. Wages need to be flexible too, so that in a downturn employers can adjust wages rather than retrench workers. It is far better for our workers to have jobs at lower pay, than no jobs at all.

The issues of wage flexibility and the problem of seniority-based wages were first highlighted in the 1985 recession. We have made progress since then. Most companies have adopted a flexible wage system with a variable year-end payment linked to the company's performance. The average ratio of maximum to minimum salary has declined from the norm of 2-3 times then to 1.7 today.

However, we have not gone far enough. In the recent downturn, a large part of the wage adjustment was borne by the reduction in CPF contributions. This is not desirable, as CPF represents long-term savings of workers. In addition, our wage system is still largely seniority-based. We have to move decisively away from the seniority-based wage system, and link wages more closely to productivity and performance.

Competitive-base Wage System

The Base-up Wage System, recommended in 1997 as an alternative to the seniority-based wage system, is founded on the principle that wage increases should be closely linked to productivity and performance. Under this system, the long salary scale for job positions should be gradually reduced to reach the desirable salary maximum to minimum ratio of 1.5, or other appropriate ratio to be agreed between union and management.

We should accelerate the implementation of the Base-up Wage System to replace the seniority-based wage system. To do so, the ERC recommends the adoption of the following principles:

- a. Both unions and employers should work towards narrowing the salary ratio to 1.5 within two collective agreements, i.e. 4 to 6 years; and
- b. Companies, in consultation with the unions, could regularly review the salary ratio when job requirements change so that workers would continue to be rewarded based on the value of the jobs and their contributions.

We also recommend renaming the Base-up Wage System as the 'Competitive Base Wage System' to emphasise that wage increases should lag behind productivity growth so that we can stay competitive.

MVC

To further enhance wage flexibility, the NWC recommended the introduction of a MVC in 1999. MVC was to be built up from future wage increases to form about 10 per cent of total wages. Unfortunately, the progress in implementing the MVC has been slow. In 2001, only 4.8 per cent of firms in Singapore had adopted the MVC structure.

We recommend that all companies build up the MVC expeditiously. To kickstart the process, companies which have not yet created an MVC, and those whose MVC makes up less than 2 per cent of workers' basic wages, should top up their MVC to 2 per cent immediately, out of their basic wages. Companies that have

2 per cent or more MVC in their wage structure should discuss with trade unions/workers whether a further percentage of basic wages could be used for building up the MVC further.

Variable Wage Component

While wages need to be flexible in order to adjust in downturns, workers also need some certainty in their income, so that they can plan ahead and make major commitments, such as buying a house. There should thus be an appropriate balance between the fixed and variable components of wages.

We recommend that different ratios of variable component be adopted for different levels of employees. As the contribution of management staff, particularly top management, is more closely linked to the company's performance, their variable component should be higher than rank-and-file employees. The proposed ratios are:

- a. Rank-and-file employees: 30 per cent of their annual wages should be variable, comprising 10 per cent in MVC and 20 per cent in annual variable component;
- b. Middle management: 30-40 per cent of their annual wages should be variable; and
- c. Top management: Not less than 40 per cent of their annual wages should be variable.

Introducing Portability to Medical Benefits

Many employers provide medical benefits to their workers. Often the employer pays the entire cost of the benefits, up to a cap, though some employers do require co-payments from their workers. This is not satisfactory. As a worker grows older, he will need more medical services. A worker who has developed a medical condition will find it hard to find new employment if he is retrenched. A new employer will be reluctant to hire him, and take on the burden of his medical expenses. At most, the new employer will offer him limited medical benefits, less than those he enjoyed at his old job.

This is increasingly pertinent because the proportion of older workers is growing as Singaporeans work longer and the population ages. And with continuing economic restructuring, workers will need to change jobs several times in their career. We should restructure provision of medical coverage by employers to be more portable and flexible.

We recognise that there is no easy, complete solution to the problem. One key issue is whether these portable medical benefits schemes should be compulsory. We are of the view that we should avoid doing so if possible. It would make the labour market more rigid and add to costs which not all companies will be able to afford, especially the smaller companies which often provide fewer medical benefits to their workers. Our proposal is therefore to have voluntary schemes, which employers and unions decide to participate in after due consultation.

We therefore support the recommendation of the Tripartite Committee on Portable Medical Benefits to introduce a Portable Medical Benefits Scheme (PMBS) with deductible and copayment elements.

As an alternative, we have, in consultation with the Monetary Authority of Singapore and insurance providers, explored the possibility of designing a portable insurance product. The General Insurance Association and the Life Insurance Association have proposed the Transferable Medical Insurance (TMI) Scheme, which could also meet the objective of allowing employees to enjoy continued medical coverage when they change employment or are in between jobs.

Deliberations on the TMI are still at the preliminary stage. Should this alternative be found feasible, we recommend that a Tripartite Taskforce be set up to study the details like how SMEs with less than 30 employees could be covered and whether the co-payment and deductible features should be introduced.

Flexible Working Hours Scheme

The rapidly changing economic environment necessitates changes in employment practices. Some companies do not require employees to report for work on a regular basis when there is no demand for their services, but require them to work overtime when they are needed to complete a task.

To ensure that additional flexibility is given to companies whose nature of business justifies it, the Employment Act² should be amended to empower the Commissioner of Labour to grant exemptions to companies that intend to employ flexible work arrangements to meet these demands.

As the proposed flexible working hours scheme has an impact on workers, we recommend setting up a tripartite taskforce to work out the principles, operational details and safeguards against abuses. The taskforce should take into consideration the need to provide flexibility to companies without undermining the interest of workers, and productivity gains from optimal utilisation of manpower resources should be shared with the workers.

Refocusing the CPF System

Since its introduction in 1955, the CPF system has provided Singaporeans with a sound framework to save for their own retirement, reflecting our strong emphasis on individual responsibility. The role of CPF, however, has grown over the years, and it needs to be refocused to keep the statutory burden on employers as light as possible. This will contribute to labour market flexibility.

In July 2002, the Government accepted the main ERC recommendations relating to the CPF system (see [Annex 1](#)). These include:

- a. Setting aside more in the Special Account;
- b. Increasing the Minimum Sum;
- c. Encouraging prudent withdrawal for housing;
- d. Enhancing returns on CPF balances;
- e. Strengthening provisions for healthcare needs;
- f. Reducing mandatory contributions for high-income earners;
- g. Enhancing employability of older workers through lower CPF contribution rates; and
- h. Giving low-income earners more take-home pay.

² The Employment Act currently covers all employees, i.e. manual workers (defined in the Act as workmen) and non-manual workers but exclude all employees in executive, managerial and confidential positions, domestic workers, seamen and public sector employees. The Act also prescribes protection to employees and workmen on matters concerning contract of service, payment of salary, maternity benefits, part-time employment and employment of children and young persons.

In addition, the ERC notes that the Singapore economy has still not fully recovered from the 2001 recession. Immediate prospects are clouded by the slowdown in the US, Europe and Japan, and the likelihood of war in Iraq. Amidst these uncertainties, we expect full recovery to come only in 2004.

It would thus be critical for us to maintain our cost competitiveness, even as we implement longer-term strategies to restructure our economy. In this context, the ERC is further recommending that the Government defer any further restoration of the CPF contribution rate, beyond its present level of 36 per cent, for two years. This will avoid adding to the statutory burden on wages for employers at a nascent stage of our recovery, 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.

We note that the Government has stated its intention to restore the CPF contribution rate to 40 per cent, when economic conditions permit. We support this 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, especially Singapore's cost competitiveness vis-à-vis other countries.

To be sustainable over the long term, particularly in view of demographic trends, the CPF structure and contribution rates have to balance the need to save enough for these basic financial requirements, with the need to keep 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.

Tripartite Cooperation

These measures to ensure competitive wage levels and inject wage and labour market flexibility into the system can only be implemented with the willing cooperation of the trade union movement and the full support of the private sector.

Singapore has come a long way from the days of confrontational industrial relations in the 1950s and early 1960s. Over the years, the tripartite partners have developed close relationships, mutual confidence and rapport. This tripartite relationship has withstood difficult economic times. Each time our strategy worked, we were able to turn the economy round, and the relationship was strengthened. The tripartite partners must work together to implement these and other ERC recommendations.

The tripartite NWC, set up in 1972 to bring together employers, workers and the Government to guide wage adjustments each year, is an especially important forum. The annual NWC recommendations have for 30 years enabled wages to rise in an orderly way, assuring Singapore workers a fair share of the rewards of growth, while avoiding any wage explosion that would have undermined our competitiveness. The NWC must continue to provide timely wage guidelines and focus on wage-related issues including wage flexibility, shifting from the seniority-based to productivity-based system and portable medical benefits.

Conclusion

Singapore faces significant economic and social challenges in the years ahead. We need to bring about greater flexibility in the wage system to enable companies to make quick adjustments to their wage cost in line with the changing business conditions. With increasing job mobility, there is also a need to introduce greater flexibility and portability in the provision of medical benefits by companies. In addition, we need to refocus the CPF to strengthen our financial resilience and inject more flexibility into our labour market for all segments of workers. If we persevere with these changes, Singaporeans will be in a stronger position to meet the challenges of the new employment landscape ahead.

Annex 1: Refocusing the CPF system

> Safeguarding Funds for Retirement

Key Initiatives

- Increase the contribution rate to the Special Account by an additional 1 percentage-point to 5/7/9 (5 per cent for members 35 years and below, 7 per cent for members above 35 to 45 years, and 9 per cent for members above 45 to 55 years) when the CPF contribution rate is restored to 40 per cent.
- Increase Minimum Sum gradually as wages rise over time.
- Limit CPF withdrawals for housing to 150 per cent of the value of the property starting 2002, and bring this Valuation Limit down to 120 per cent over 5 years. This cap should not apply to subsidised loans for HDB flats and all existing loans.

> Enhancing Returns on CPF Balances

Key Initiatives

- Facilitate the provision of low-cost privately-managed pension plans to CPF members, as an additional option under the CPFIS framework.
- Peg the interest rate paid on SA balances to an appropriate long-term interest rate, such as the yield on long-term government bonds.

Strengthening Provisions for Healthcare Needs

Key Initiatives

- Reaffirm Government's intention to increase the contribution rate to the Medisave Account by 1 percentage point to 7/8/9 (7 per cent for members 35 years and below, 8 per cent for members above 35 to 45 years, and 9 per cent for members above 45 years) when the CPF contribution rate is restored to 40 per cent.
- Increase risk-pooling via enhanced medical insurance, while retaining the framework of copayments and deductibles. Explore devolving the health insurance system and other CPF-based insurance schemes to private insurers to operate and manage.

Enhancing Employability of Older Workers

Key Initiatives

- Keep the employer CPF contribution rate for those in the 50-55 age group at its present level of 16 per cent, even as the rate is restored to 20 per cent for those below 50. Allow CPF members aged 50-55 to continue using their Special Account to meet shortfalls in mortgage repayments for a longer transition period.
- Lower the employees' CPF contribution rate for those in the 50-55 age group from the present level of 20 per cent to 16 per cent.

> Reducing Mandatory Contributions for High-income Earners

Key Initiatives

- Lower the CPF salary ceiling for both employers' and employees' contributions from the current \$6,000 to \$5,000.
- Encourage employers to make appropriate adjustments to salary packages to offset the CPF reduction and to reflect the employees' market value.

> Giving Low-income Earners More Take-home Pay

Key Initiatives

- Raise the employee CPF wage bands for lower-income workers from \$200-\$363 to \$500-\$750.

Land

Chapter 8 >>

Summary

International competitiveness of land is not just about setting the lowest land prices, but is also about optimising the value-added from available land. We must therefore maximise the value creation from our land resources as well as keep the cost of land competitive, by managing the supply of land judiciously and ensuring that the land market is flexible enough to allow market forces to work more effectively.

Optimising land use, more competitive land prices

> Key Recommendations

Role of Government

- Ensure adequate supply of land to achieve competitive, stable land prices.
- Minimise Government participation in areas where there are no developmental, strategic or socio-political considerations.
- Develop a single mechanism to regulate the supply of land and property by government agencies into the market, to ensure that the release of land and properties from the various Government agencies is coordinated.

Maximising Value Creation

- Consider ways to sell land in bigger pieces with more flexibility for integrated phased development, like an integrated Business Financial Centre (BFC). The development of the BFC will allow Singapore to cater to the specific needs of business and financial tenants to strengthen Singapore's position as a financial hub.
- Consider advancing transportation infrastructure in strategic developments such as One-North, Jurong Island, Tuas and the proposed BFC to catalyse the attractiveness of these areas to workers, companies and foreign investors. This would have to take into consideration externalities and the economic viability of such projects.
- Continue to give priority to the sale of sites in the vicinity of MRT stations in the Government Land Sales (GLS) programme to allow the concurrent development of such sites to be better integrated with the development of the MRT stations.
- Widen the initiative to put vacant State properties and land to interim use.

Reducing Costs

- Inject flexibility in Singapore's land tenure system to match user needs.
- Charge a time-based enhancement levy for businesses instead of full development charge by granting temporary planning permits.

> Sector-specific Recommendations

Industrial Sector

- Ensure an adequate supply of industrial land at internationally competitive prices, so that Singapore can continue to attract high-quality manufacturing investments.
- Adopt a pay-as-you-use concept for the acquisition of development rights wherever feasible, instead of requiring full payment for the maximum development potential of sites at the point of alienation.
- Adopt a more responsive market-based approach for industrial rental policy, with rentals regularly marked back to prevailing market rates.

Residential Sector

- Review HDB's role in public housing, and relax HDB's flat rental rules.
- Undertake a fundamental review of the home-ownership policy to examine the optimal mix of home ownership and rental, and their effects on areas such as entrepreneurial risk appetite, rate of family formation and Singaporeans' sense of a tangible stake in the nation's success.

Introduction

Land is one of the key factors of production and its cost has a direct impact on Singapore's overall cost competitiveness.

Singapore's size sets a natural constraint on our supply of land. Land-scarce Singapore will not be able to compete with the land prices of larger countries. But international competitiveness of land is not just about setting the lowest land prices. It is also about optimising the value-added from available land. Therefore we need to maximise the value creation from our land resources, as well as keep the cost of land competitive.

> Role of Government

Singapore's land sector is best described as a public-private sector partnership – the Government, as the largest supplier of land¹, provides a strategic orientation, while the private sector adds a degree of responsiveness to changing market conditions. Broadly, the Government affects the market by:

- a. Directly intervening through its agencies like the Housing and Development Board (HDB), JTC, Urban Redevelopment Authority (URA) and Singapore Land Authority (SLA);
- b. Influencing land supply by releasing land through the GLS programme; and
- c. Managing the land regulatory framework, which includes policies affecting land pricing and the efficiency of the market.

Going forward, the Government should ensure that there is an adequate supply of land into the market, so that prices are stable and competitive. We also recommend that the Government minimises its participation and allow the private sector as much leeway as possible to respond to changing market

¹ Government agencies such as JTC and HDB own about 89 per cent of the industrial land stock in the market, while HDB has developed 81 per cent of the residential housing stock.

circumstances, in areas where there are no developmental or socio-political considerations. This minimises the crowding out of the private sector, and expands the available competitive space.

As the largest land supplier, the Government should develop a single mechanism to regulate and coordinate the supply of land and property to the market by the various Government agencies. There is a need to ensure that the release of land and properties from the various Government agencies is properly coordinated and controlled. The quantum of supply should also be constantly reviewed and monitored to be responsive to market developments.

The Government should also take into consideration the cumulative, economy-wide impact of policies on effective land supply when setting the regulatory framework. Individually sound policies that add flexibility, such as the white site zoning scheme and making more State land available for interim use, can have a significant, unintended and cumulative impact of increasing the supply of available land.

> Maximising Value Creation

The land sector should be viewed as an industry in its own right. Land-related sectors account for 18 per cent of Singapore's GDP². We recommend the following measures to unlock value in land assets.

Developing an Integrated Business Financial Centre

Singapore should consider ways to sell land in bigger pieces with more flexibility for integrated phased development, like an integrated Business Financial Centre (BFC), while taking into consideration the state of supply and demand so as not to destabilise the market. The development of a large integrated BFC will allow

²This is composed of: (a) construction (both residential and non-residential): 6.1 per cent, (b) real estate activities, including letting of privately-owned homes: 7.1 per cent (c) architectural and engineering services: 1.1 per cent (d) imputed rent of owner-occupied dwellings: 3.6 per cent. Source: Singapore Department of Statistics.

Singapore to cater to the specific needs of business and financial tenants to strengthen Singapore's position as a financial hub.

A master developer of such a centre should be given the flexibility to plan, design and phase the development of the project to match rapidly changing global needs. In addition, the Government can facilitate the development of the BFC by making the payment scheme as flexible as possible. Commitment from several suitable anchor tenants should also be sought before it is developed.

Consider Advancing Transportation Infrastructure for Strategic Developments

The provision of transport infrastructure for strategic developments is often a case of the proverbial 'chicken-and-egg'. The current policy is that investment in transportation infrastructure (for example, rail or buses) are made only when there is sufficient passenger volume to cover operating costs.

However, the lack of transportation infrastructure in the early stages of a development usually diminishes its attractiveness, as companies have to incur costs providing transportation for their staff. Takeup rates are adversely affected and in turn, the time to reach the critical mass of passengers is further pushed back. For certain key strategic developments (e.g. such as One-North, Jurong Island, Tuas and the proposed BFC), there is a possible economic case for the Government to 'jump start' these developments by providing transportation infrastructure before a critical mass of passenger volume is attained. These would have to be carefully evaluated on a case-by-case basis to take into account externalities and ensure that the projects are economically viable.

Giving Priority to the Sale of MRT Sites in the GLS Programme

Wherever possible, the Government should continue to prioritise the sale of sites in the vicinity of MRT stations as part of the GLS programme, for concurrent development. This encourages fuller utilisation of MRT lines. The concurrent

development of the site with the MRT line also affords additional efficiency gains by allowing developers and the LTA to work out a mutually acceptable support structure and urban design, avoiding duplicative work and lowering construction costs.

Widening Initiative to Put Vacant State Properties and Land to Interim Use

Vacant State properties and land not required for development in the short term should be let out to encourage innovative uses or to meet demands not adequately met by the market at the relevant time. For example, vacant lands within or near housing estates could be put to recreational or community uses to add more life and vitality to the area and to encourage greater community bonding.

> Reducing Costs

The other dimension of enhancing competitiveness is to reduce costs. Cost is a function of many factors such as demand and supply, rules and regulations, construction costs and pricing policies. We recommend the following measures to reduce land costs in Singapore.

Inject Flexibility in Singapore's Land Tenure System to Match User Needs

The Government should introduce the option of shorter leases so that land users can choose what best meets their needs. Shorter leases also reduce the upfront land costs and lower barriers of entry.

There should also be greater transparency in current policies pertaining to the extension/renewal of leases. This would provide more certainty and enable current owners of leasehold properties to make informed decisions of whether to upgrade or redevelop their properties.

Charge a Time-based Enhancement Levy for Businesses on Temporary Planning Permission

Business startup costs can be lowered by granting entrepreneurs temporary planning permission, and allowing them to pay a pro-rated levy instead of the full development charge, which poses a hurdle to some entrepreneurs trying out new business ideas.

> Sector-specific Recommendations

Singapore has adequate industrial land. Only about half of the land safeguarded for industrial use is occupied. Our system of supplying industrial land on a leasehold basis also allows a turnover of industrial land. We are therefore in a position to ensure an adequate supply of industrial land at internationally competitive prices, so that Singapore can continue to attract high-quality manufacturing investment.

Industrial Sector

Until now, Singapore's industrial land has commanded a premium compared to other locations, given our stable political and business environment, and good infrastructure. Going forward, global competition to be a prime location for manufacturing will intensify. We need to ensure that Singapore is not priced out of the competition. Many of our competitors are able to support lower land prices. Although we may not be able to match their prices, we must factor international prices into our considerations.

JTC should take into account international prices when it sets prices for industrial land. Although Singapore only has a limited supply of land, we can leverage on our capacity to manage this supply through the leasehold system to achieve competitive prices in the industrial sector.

We should also increase the flexibility in industrial land use. We recommend the following measures to achieve this:

- a. Adopt a pay-as-you-use concept wherever feasible. To lower land costs and avoid tying down valuable capital resources unnecessarily, land users should be allowed to pay for only the extent of land rights needed, instead of the maximum development potential of the land. There should also be flexibility in allowing for additional rights to be purchased when required; and
- b. Adopt a more responsive market-based approach for industrial rental policy. With the shorter and less predictable business cycles in today's world, JTC should review the automatic escalation feature of its rental revision schemes and adopt a more market-responsive approach.

Residential Sector

Housing costs have a direct impact on the wages that workers demand, which in turn impact economic competitiveness. In Singapore, where 85 per cent of the population lives in public flats, public housing policy can have significant bearing on economic competitiveness. We recommend that the Government:

- a. Review HDB's role in public housing. HDB today has a wide-ranging role and performs a variety of functions in the provision of public housing, including serving as the public housing authority, developer, building consultant, financier and lessor. The HDB should review its role in parts of the value chain where the private sector is able to perform similar functions without compromising the achievement of social policy objectives. This rescoping of the role of HDB will create more competitive space for the private sector and makes greater use of market forces to achieve more efficient outcomes. In the longer term, a more robust residential sector will develop, with the Government coming under less pressure to intervene in the market; and

- b. Relax flat subletting rules. HDB flat subletting rules should be relaxed, to offer a wider range of affordable housing options to different categories of income earners. It also offers a means of monetising the assets for those whose most significant asset is property, hence helping to address the asset-rich cash-poor phenomenon.

The Government should also undertake a fundamental review of the home-ownership policy to examine the optimal mix of home ownership and rental, and their effects on areas such as entrepreneurial risk appetite, rate of family formation and having a more tangible stake in the nation's success. The impact of housing policy on the adequacy of funds for retirement, upward social mobility and fostering a mindset of less reliance on Government intervention should also be examined.

> Review of Specific Rules, Regulations and Practices

To maintain a flexible environment to allow market forces to work more effectively, we recommend the Government consider change to the following rules, regulations and practices:

- a. Review the Planning Act to allow for longer tenancies (beyond 14 years) without requiring subdivision to better meet the emerging trend towards longer tenancies;
- b. Change Controller of Housing regulations to give private housing developers more flexibility and, at the same time, to give private property buyers more information to support their purchase decisions;
- c. Review relevance of requirement for Qualifying Certificates for companies undertaking residential property development in Singapore;
- d. Review Street and Buildings Names and Advisory Committee approval procedures and guidelines for names of developments, with a view to speeding it up, especially in situations where the initial application is rejected; and

- e. Grant more Gross Floor Area (GFA) exemptions to encourage the provision of communal areas for residential developments and common areas for commercial developments so as to improve the quality of the living and working environment.

> Conclusion

Land is a platform for other economic activities. Managed properly, land policy can deliver optimal value from land use and keep land costs competitive. This can prove to be a decisive factor in maintaining Singapore's competitive edge.

Entrepreneurship

Chapter 9 >>

Summary

For the longer term, our most basic strategy is to upgrade ourselves and make Singapore a knowledge economy, banking on creativity and innovation to power the economy and tapping the potential of IT in all areas. In addition to technical skills, we need to promote the spirit of entrepreneurship in Singapore to take advantage of global markets and to create new ideas and businesses.

A key outcome of our efforts to promote entrepreneurship should be the growth of strong Singapore companies which are entrepreneurial and can venture abroad to become international players. We also want to encourage the growth of enterprising startups. At the same time, we must help the group of traditional companies which face difficulties adapting to the new economy, to rationalise, upgrade themselves and meet the needs of a new generation of customers.

Nurturing an entrepreneurial and creative Singapore

> Key Recommendations

Entrepreneurial Culture & Capability

- Evolve new social values which celebrate entrepreneurship and risk-taking by promoting a culture that accepts diversity and failure, and embraces a broad notion of success.
- Develop entrepreneurship programmes at all education levels.
- Attract Global Entrepreneurial Executives (GEEs) to Singapore by ensuring flexibility in our employment pass system, and engaging various associations to help them settle in Singapore.
- To designate a Minister (or Minister of State) to be responsible for promoting and driving initiatives for a more entrepreneurial Singapore.

Encouraging Growth of Enterprising Startups

- Encourage the development of a more vibrant culture for business startups.
- Create a pro-enterprise environment by:
 - a. Imposing a sunset rule on all licences to cut red tape;
 - b. Outsourcing licensing and other Government functions to the private sector through competitive tender;
 - c. Allowing enterprises to retain IP arising from Government projects; and
 - d. Enacting a generic competition law to institutionalise a regime where no company enjoys unfair privileges, and must compete on equal footing in the market with others.
- Ensure availability of and access to capital through:
 - a. Encouraging cashflow funding, by liberalising the finance companies sector to broaden financing facilities to enterprises;

- b. Supporting and facilitating the establishment of a private equity exchange that allows startups or emerging enterprises to raise funds through the issuance of shares, and for investors to trade their shares;
 - c. Implementing an equity financing scheme equivalent to the Startups Enterprise Development Scheme (SEEDS) to support a broader base of enterprises other than startups with innovative or intellectual content;
 - d. Reviewing Government loan schemes such as the Local Enterprise Finance Scheme (LEFS) and Regionalisation Finance Scheme (RFS) to ensure they are relevant to enterprises; and
 - e. Considering introducing a hybrid debt-equity financing scheme to support emerging enterprises in their growth and internationalisation, either organically or through acquisitions.
- Develop export industries with the capabilities to help domestic enterprises franchise or license business concepts overseas.

Internationalisation of Major Singapore Companies

- Encourage large Singapore-based companies to internationalise through:
 - a. Tax exemption for companies' business-related foreign source income remitted back to Singapore;
 - b. Adopting a holistic approach in developing a global brand name for Singapore, and encouraging and supporting Singapore-based enterprises in their branding efforts;
 - c. Fostering a cluster approach among companies venturing overseas, such as by expanding the Local Industry Upgrading Programme (LIUP) to cover instances where GLCs and larger companies lead a cluster of enterprises, including SMEs to venture abroad; and
 - d. Facilitating consolidation and alliances between companies.

Helping Smaller, Traditional Companies Adapt

- Help smaller, traditional companies consolidate, restructure and improve their competitiveness by:
 - a. Creating an environment of change and innovation among domestic enterprises;
 - b. Promoting a new orientation towards service excellence by initiating a national movement for service excellence, developing effective training programmes for domestic enterprises and providing funding for domestic enterprises to develop suitable scripting of their services; and
 - c. Rationalising and restructuring the excess capacity in small local enterprises, especially retail outlets in HDB estates, including through the use of financial incentives.

Role of the Government

Government-linked Companies (GLCs)

- Government to own and control companies only when it involves critical resources or public policy objectives. Non-strategic GLCs should be divested.
- Ensure GLCs are commercially run, with no interference from the Government.
- Temasek Holdings to constantly review the stable of GLCs to rationalise, consolidate or divest GLCs where it makes commercial sense and benefits shareholders.
- Temasek Holdings to focus GLCs to grow into global businesses rather than concentrate on the local market to build up unrelated businesses.
- Temasek Holdings to cast a wide net to attract world-class managerial talent into GLCs. Underperforming board members and management staff should be removed.

- Temasek Holdings to limit new investment to businesses which have the potential to internationalise, and are in new growth sectors that the private sector deems too risky to enter.

Ministries and Statutory Boards

- Institute a 'Yellow Pages' rule to avoid encroaching on the space of the private sector.
- Statutory boards to avoid corporatising regulatory functions which could lead to rent-seeking by the enterprise.
- Proactively divest enterprises owned by statutory boards where appropriate, through mandatory periodic housekeeping.
- Statutory boards to avoid conflicts of interest. Their enterprises should not utilise the name of the statutory board in the domestic market, and the board of directors should be independent of the management of the statutory board. We also need to ensure that these enterprises do not enjoy a moratorium while competing in the market.

Introduction

For the longer term, our basic strategy is to upgrade ourselves and make Singapore a knowledge economy, banking on creativity and innovation to power the economy and tapping the potential of IT in all areas. In this environment, technical skills alone will not be enough. We will need a class of entrepreneurs in Singapore to find and develop new economic niches and to exploit economic opportunities for Singapore.

We cannot manufacture entrepreneurs but we can create the environment and conditions that allow, encourage and facilitate entrepreneurship. Moving forward, the challenge for Singapore is to create the desire in enough Singaporeans to want to make it on their own rather than work for someone. This will require a change in the Singaporean mindset and will take time to achieve.

> Entrepreneurial Culture

At the most fundamental level, we need to inculcate an entrepreneurial culture in which Singaporeans want to be entrepreneurs. This involves reaching out to the young in our school system, and must continue through to the tertiary institutions and extend even to entrepreneurship programmes for the adult workforce.

It also involves changing society's response to entrepreneurship. Society must uphold successful entrepreneurs as role models rather than resent them for their affluence. It must be forgiving towards those who try and fail, and not humiliate them or dampen their ability to start afresh.

More fundamentally, we must strike a right balance between providing social safety nets for Singaporeans, and extending the nets so wide that Singaporeans become dependent and reliant on the Government. Ultimately, the way to promote enterprise and creativity is through less government intervention rather than more. An individual's success must depend on his own efforts and abilities, rather than on largesse from the Government. Singaporeans will then have the incentive to be enterprising, and the competition will strengthen the players and produce winners who can hold their own.

We therefore support the inclusion of an entrepreneurial and enterprising spirit in the Ministry of Education's (MOE) Intermediate Outcomes of Education for secondary and pre-university education. There already exist various school-based initiatives that foster enterprise and innovation. We should extend entrepreneurship programmes to all education levels, in different formats suited to each level. Beyond schools, we should try to deliver such programmes to young people through the National Youth Council (NYC) and Community Development Councils (CDCs). This will improve the outreach of such programmes. To train the adult workforce, commercial programmes can be supplemented by public organisations such as the Ministry of Manpower (MOM), the Singapore National Employers' Federation (SNEF) and the National Library Board (NLB).

> Entrepreneurial Talent

Given the finite size of our talent pool, and the long time lag for promoting a more entrepreneurial culture among Singaporeans, we must tap entrepreneurial talent from abroad. Already an encouraging number of Chinese and Indian entrepreneurs have come to Singapore, to take advantage of our incubators. But we should do more to attract foreign entrepreneurs, or Global Entrepreneurial Executives (GEEs), with international experience and good track records, to Singapore, to start and grow enterprises here, and act as mentors to Singaporean entrepreneurs who do not have the experience of starting up new companies.

To do so, we need to tailor incentive programmes that appeal to the individual. This would include:

- a. Having sufficient flexibility in our employment pass system to allow GEEs to come to Singapore without a well-paid job or a specific opportunity and facilitating the entry of their close family members;
- b. Having EDB, together with the relevant agencies, establish a comprehensive programme to attract entrepreneurs to Singapore and develop and increase the number of foreign incubation centres in Singapore; and
- c. Engaging various non-government associations to help GEEs settle in Singapore.

In addition, to increase our chances of developing entrepreneurial capability in industry, there is a need to ensure that the private sector is not crowded out of the local talent pool and deprived of its fair share of talent.

We accept that the public sector needs its fair share of talent and scholarships to continue to be the key channel through which the Government identifies and recruits talent. However, the Government should ensure that it does not take up a disproportionate share of top students from each cohort. It should focus its scholarships in specific, critical areas where talent is required. There should be a healthy turnover of scholars from the public to the private sector, as in the case of scholarship schemes such as EDB's industry scholarships, where scholars flow through to the private sector over time. This will help seed the private sector talent pool downstream.

> Implementation Strategy

The Government set up the Technopreneurship 21 Ministerial Committee in 1999 to oversee the development of technopreneurship in Singapore. To broaden the scope of this effort, in 2001, the Government redesignated the committee as the Entrepreneurship 21 Ministerial Committee. To sustain our efforts to encourage entrepreneurship and creativity, the Government should designate a Minister to work with the Entrepreneurship 21 Ministerial Committee to promote and drive the initiatives for a more entrepreneurial Singapore.

> Growing Singapore Companies

A key outcome of our effort to promote entrepreneurship should be the growth of vibrant Singapore companies which can develop new ideas and businesses, tap new export markets, broaden our economic base and make our economy more resilient. These Singapore companies will complement the MNCs, and also help to support and anchor MNCs here.

Encouraging Growth of Startups

We need to encourage the growth of enterprising startups and SMEs, whether they are high-tech or low-tech, whether they develop their own products and intellectual property or expand the market for existing products, and whether they compete in the domestic market or abroad. This will yield benefits not only in terms of output and GDP growth, but will also have a leavening effect, adding dynamism and buzz to the economy.

Growing enterprising startups is not only about expanding the population of start-ups. More fundamentally, it requires setting the right tone of society and a culture of starting up new enterprises among Singaporeans so that we grow

our own stable of local startups and SMEs. Not all will survive or make it big. Hopefully, some will be successful, and in time will form a new generation of local companies, like BreadTalk, Coffee Bean, Tee Yih Jia, Thong Siek and Qian Hu.

There are also some impediments in our business environment that hinder startups.

Regulatory Landscape

Collectively, regulations can create significant barriers to new businesses entering the market. We recommend that the Government adopt a structured, institutionalised and coordinated programme to cut public sector red tape. The Government should also take enterprise-friendly approaches to economic management, industry regulation, and procurement.

The Government has already embarked on reviewing rules that are onerous and stymie enterprise. It established a 'More Vision, Less Bureaucracy' (MVLB) movement in September 2000. This currently comprises:

- a. The Pro-Enterprise Panel (PEP) which deals with business-related feedback on Government rules;
- b. The Zero-In Process (ZIP) which deals with non-business (social, community and administrative) issues;
- c. The Public Officers Working on Eliminating Red-tape (POWER) which deals with internal feedback generated by public sector officers; and
- d. The Rules Review Process (RRP) which reviews all government rules over the next three years and thereafter on a five-yearly cycle.

In addition, we recommend the following:

- a. Imposing a 'Sunset Rule' where all licensing requirements will become automatically obsolete within three years of its introduction. All licensing requirements in the future would need to be justified periodically;

- b. Ensuring the Pro-Enterprise Panel (PEP) set up in 2000 and chaired by the Head of Civil Service will continue to maintain the momentum of the major push to the pro-enterprise movement. The PEP should also have appropriate representation from the Singapore Business Federation (SBF);
- c. Allowing suppliers to retain IP arising from Government projects. In the US, the Bayh-Dole Act enables SMEs, non-profit organisations and universities to retain IP that they create with federal funding. This has spurred the transfer of technology from laboratories to the marketplace. We should consider enacting a similar Act; and
- d. Not ruling out products and services offered by SMEs automatically from Government procurement, simply because they do not have the necessary track record. The Government should also continue with The Enterprise Challenge to function as test beds for SMEs' products and services that would lead to significant improvements in public services, while maintaining the current principles of openness, non-discrimination and value-for-money in Government procurement.

Financing and Government Support

A key condition for entrepreneurs to flourish is the availability of capital at the various stages of their enterprises. We propose the following:

- a. Encouraging cash flow financing. Financial institutions traditionally rely on collateral in the form of physical assets. Lending against cash flow is not considered prudent in the case of new and emerging enterprises. This is compounded by a lack of domain knowledge in various industries. We recommend that the Government encourage financial institutions to develop cash flow financing;

- b. Setting up a private equity exchange that allows enterprises to raise funds through the issuance of shares to selected investors, and providing a forum for investors to trade their shares. An additional advantage is that such an exchange provides market valuations for startup or emerging enterprises, hence allowing owners to use their shares as collateral to secure bank loans. We propose that either the Singapore Exchange or a private sector company drive this project with the support of EDB and adequate incentives from the Government;
- c. Implementing an equity financing scheme similar to the Startups Enterprise Development Scheme (SEEDS) to cover a broader base of enterprises rather than limiting the scheme to startups with innovative or intellectual content;
- d. Periodically reviewing Government debt financing schemes such as LEFS and RFS which help local enterprises to grow domestically and overseas, to ensure that they are relevant in promoting entrepreneurship and the growth of enterprises; and
- e. Implementing a hybrid debt-equity financing scheme to support promising emerging enterprises seeking funding to finance their growth, organically or through acquisitions.

Developing Capabilities to Franchise and License Overseas

There are domestic enterprises in Singapore with exciting and viable business concepts that can be exported. These businesses are often not big or capable enough to venture abroad on their own. Yet, if they wait until they are large enough, their concepts would have been replicated overseas. We should thus develop export industries so that they have the capabilities to help domestic enterprises franchise and license their business concepts overseas.

Competition Framework

Singapore does not have a generic competition law to prevent cartel activities like price-fixing and market division, and abuse of dominance by significant market players. We have enacted such rules only for specific sectors, like energy and telecommunications, which are more prone to anti-competitive behaviour. We therefore welcome the Government's recent announcement to enact a generic competition law and set up an independent competition authority in two to three years.

Internationalisation of Major Companies

We have major Singapore companies which have made their mark on the international stage, including Creative Technologies, Singapore Airlines and PSA Corporation. We also have companies which have the potential to become global players, such as Ascott, Pacific International Lines, Achieva Limited, ECS Holdings, and Singapore Aircraft Leasing Enterprise. We should encourage these and other major Singapore companies with the scale and organisational depth to venture abroad, to tap the opportunities in regional markets, as ASEAN, China and India open up. Those which still lack scale at this time, but are in industries where scale is increasingly important, should be encouraged to pursue strategies to keep pace with developments, including growing organically or through mergers and acquisitions.

We propose the following initiatives to help these companies internationalise:

- a. Eliminating the double taxation of foreign source income that is remitted into Singapore. As businesses are increasingly globalised, we need a tax regime that will encourage the export of local services to overseas markets and to grow Singapore-based companies' foreign income. As proposed in Chapter 6, the Government should exempt from tax, companies' business-related foreign source income remitted back to Singapore;

- b. Developing a strong, global brand image for Singapore. Singapore is already well-known for its strong leadership and the successful implementation of its economic plans and strategies. This should be built upon to portray a rounder image for Singapore as a global city of the 21st century where arts, sports and culture also feature prominently. Government agencies should coordinate their efforts to market this new brand image of Singapore. At the same time, the Government should give more recognition to the branding efforts of Singapore-based enterprises, and profile Singapore brands to foreign investors and visitors, especially at exhibitions and events organised by Government agencies;
- c. Adopting a cluster approach when venturing overseas. Not many enterprises have all the necessary competencies to compete abroad. IE Singapore and SPRING should identify and catalyse the development of specific industry clusters which can venture abroad together. A good scheme to help foster a mindset of partnership is the LIUP, which encourages MNCs to help upgrade SME vendors. We should expand the LIUP to cover instances where GLCs and larger enterprises with experience overseas, lead a cluster of enterprises, including SMEs, to venture overseas; and
- d. Encouraging consolidation and strategic alliances. Domestic enterprises tend to be highly fragmented and getting them to band together to form economic groupings and strategic alliances will help them to overcome their limitations in size. The Government can act as a catalyst in providing matchmaking services between different parties to form alliances. It can also encourage different forms of consolidation and strategic alliances through incentives.

Helping Smaller, Traditional Companies Adapt

Even as we help facilitate internationalisation of those Singapore companies which are able to do so, we must not forget the group of smaller, traditional companies which face difficulties adapting to the new, challenging environment. These would include HDB retail shops and small industries in HDB industrial parks which are considerably affected by the changes in our economy. They do not have the economies of scale, lack management expertise and face difficulties hiring capable people because they cannot match the pay of larger companies or offer the same kind of exciting career opportunities.

We need to help these companies by facilitating their rationalisation, consolidation and upgrading so that they can adapt to the changed circumstances.

Fundamentally, the new environment requires an innovative culture among these smaller domestic enterprises. Many of them lag far behind in terms of new ways of doing business. They should adopt more innovative approaches to doing business, and be encouraged to experiment with new concepts, processes, products and services. The Government on its part should constantly review the regulatory environment to ensure that rules and regulations do not have the unintended consequence of hindering speedy implementation of ideas.

We should also promote a new orientation towards service excellence. A national movement for service excellence can be initiated to promote a new service orientation by the domestic enterprises. Publicity can be generated to emphasise the benefits of good service. Effective training programmes such as SIA cabin crew training can be developed into suitable programmes for domestic enterprises.

At the same time, we need to improve the image of the domestic sector. Domestic enterprises tend to give an impression of low-end jobs and unexciting job prospects. We must address this poor image if we want to make our domestic enterprises more vibrant. One way of gaining more recognition for domestic enterprises is to encourage the international rating systems such as Michelin Award to set up their offices here in Singapore.

Finally, the ERC recommends that the excess capacity in small local enterprises be rationalised and restructured, especially retail outlets in HDB estates, including through the use of financial incentives.

> Role of the Government

The Government plays an important enabling role in the efforts to grow strong Singapore companies.

GLCs and Temasek Holdings

In the early years of Singapore's development, when the private sector was under-developed, the Government provided services critical for the growth of the economy, such as development banking, telecommunications, ports, and power. Today, the private sector is more sophisticated and the market functions well in allocating resources. With the business environment changing rapidly, it is private enterprise, not the Government, that is the most knowledgeable about and best able to exploit evolving market trends and technologies.

The Government should encourage the private sector to be at the frontier of developing new business ideas. Its primary role is to ensure a level playing field and provide opportunities for all enterprises to have a fair chance to succeed. It should intervene only under exceptional circumstances, such as market failure.

The Government should therefore continue to allow the GLCs to be run as commercial entities, which must compete on equal footing in the market, without any special privileges. The recent announcement of the Temasek Charter is a major step forward. In line with the direction set out by the Charter, we propose that the Government abide by the following principles in setting up and maintaining GLCs.

- a. The Government should own and control companies only when it involves critical resources, where ownership of a resource is critical to Singapore's security or economic well-being, and public policy objectives, where ownership enables the Government to achieve specific objectives by providing services or assuming control for the public good;

- b. The Government should not interfere with the day-to-day commercial decisions of GLCs. These companies should not be asked to perform 'national service'. This is defined broadly as any project or activity that the company would not have done if it were evaluated purely on a commercial basis; and
- c. The Government should constantly review the stable of GLCs and keep only those which serve strategic purposes. Non-strategic companies should be divested in an orderly fashion.

Temasek Holdings should seek to maximise shareholders' return in the long term and benchmark the performance of its stable of companies against industry peers – domestically, regionally and globally. We also propose that Temasek Holdings reinforce its Charter in the following ways:

- a. GLCs are natural candidates for internationalisation given their size, depth of management and the competencies that they have built up over the years. Temasek Holdings' key mission should be to grow GLCs into globally competitive enterprises that are anchored in Singapore;
- b. Temasek Holdings should make a conscious effort to cast a wide net to attract world class managerial talent into GLCs. Underperforming board members and management staff should be removed; and
- c. Temasek Holdings should limit new investment to businesses with the potential to internationalise. These are to be in new growth sectors where the private sector in Singapore is unable or unwilling to undertake the risks, such as large investment with long gestation periods.

Ministries and Statutory Boards

The primary role of many Government agencies is to regulate and promote certain industries in an impartial manner, and ensure a level playing field for all market players. In carrying out their missions, many statutory boards have also set up enterprises, which can also encroach into the space of the private sector. We therefore propose that statutory boards abide by the following disciplines when setting up enterprises:

- a. Government to institute a 'Yellow Pages' rule. Statutory boards should not set up enterprises if private sector players performing similar activities can be found in the yellow pages;
- b. Statutory boards should as far as possible not corporatise regulatory functions because these are often monopoly functions and could lead to rent-seeking;
- c. Even if setting up an enterprise under a statutory board is necessary, there should be proactive plans to encourage the private sector to take over the function eventually. There should be a mandatory periodic housekeeping, say every three to five years, of all enterprises set up by ministries and statutory boards to decide which to divest and which to keep; and
- d. Statutory boards should avoid conflicts of interest. They should ensure that the enterprise does not utilise the name of the statutory board in the domestic market, and that the board of directors is independent of the management of the statutory board. The enterprise should also not enjoy a moratorium on its domestic business from the Government while at the same time being allowed to compete with the private sector in that market segment.

Manufacturing

Chapter 10 >>

Summary

Many economies with Singapore's level of per capita income are unable to sustain their manufacturing sectors as they find it more efficient to specialise in higher value-added, knowledge-based services and move out production activities to other low-cost locations. Hence, the structure of mature industrialised economies such as the US, the UK and Japan typically show a small and shrinking manufacturing base as a share of GDP with a rapidly expanding services sector. We will face similar challenges in sustaining Singapore's manufacturing sector. However, we believe that there is a future for manufacturing in Singapore notwithstanding competition from developing countries such as China and India with their low labour and land costs. We have competitive strengths and can remain a manufacturing hub. To do so, we need to continue to attract MNCs to Singapore, upgrade the sector, and move beyond being a mere production base, to become an innovative creator of products and new businesses.

Singapore as a global leader in value manufacturing

> Key Recommendations

- Continue to attract MNCs to provide access to technology, management know-how and markets, and jobs for Singaporeans.
- Continue to strengthen and grow existing electronics, chemicals, biomedical sciences and engineering clusters.
- Grow new, potential growth areas including industrial IT, micro-electromechanical systems (MEMs), nanotechnology and photonics.
- Increase productivity and contain costs in areas such as land and utilities costs, where possible.
- Keep our doors open to foreign workers, while carefully controlling the inflow primarily through the levy.
- Promote R&D, especially the cooperation and codevelopment of products and processes between research institutes and local enterprises, to close the gap between research and commercialisation.
- Strengthen patent protection laws, facilitate low-cost filing and establish an Intellectual Property (IP) Academy.
- Develop the right infrastructure for new growth areas by creating cluster-focused infrastructures for new technology industries.
- Develop supporting services, especially supply chain management capabilities in Singapore.
- Extend our overseas markets through active pursuit of FTAs on a bilateral and multilateral basis, and running more trade missions to better understand business opportunities in these new markets.
- Tap low cost areas close to Singapore, including maximising the potential of Singapore-Riau twinning by improving supporting industries and a logistics network between the two islands, as well as incorporating Riau in more FTAs. Manufacturing is a prime engine of growth in Singapore. Since 1985, the manufacturing landscape has been transformed through high growth in sectors, such as electronics, aerospace and specialty chemicals [see [Table 10.1](#)].

Introduction

Table 10.1: Growth of Manufacturing Over the Years

Manufacturing	1985-2001(% per annum)	1985	2001
Output	8.2	\$38,956m	\$138,323m
Value-Added	8.8	\$8,251m	\$31,923m
Value-Added per Worker i.e. worker productivity)	6.7	\$0.03m	\$0.09m
Employment	1.9	253,510	345,141
R&D Expenditure	28.1	\$37m	\$1,945m

Source: Economic Development Board

Over the last 20 years, Singapore has benefited from its pre-eminent position as a high-quality, low-cost base in Asia. However, this position is increasingly difficult to sustain. The economic contest is becoming more intense. We face increasing competition, not only from developing countries such as China and India with their low labour and land costs, but also from developed nations such as the US and the UK with their more advanced innovations and technologies.

Moreover, most countries with roughly the same level of per capita income have found it difficult to sustain their manufacturing sectors. European economies, with the exception perhaps of Germany, Japan and Taiwan, have seen their manufacturing base shrink while services have grown. Whether Singapore can sustain our manufacturing sector at around 20 per cent of the economy is therefore not a foregone conclusion.

Having reviewed our position carefully, we are satisfied that there is a future for manufacturing in Singapore. Singapore has significant competitive strengths, and we must make the concerted effort to build on our existing competitive strengths to sustain manufacturing as an integral part of our economy contributing

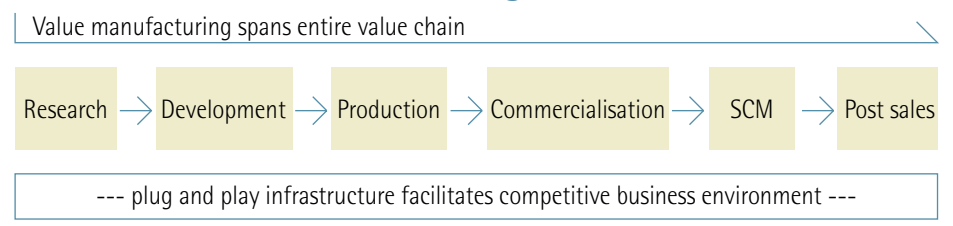
20 per cent or more to GDP over the next decade. This is important because Singapore is a city-state, unlike economies such as Hong Kong, which has the Pearl River Delta as a production base and can afford to have its manufacturing base moved offshore.

To achieve this, we must continue to attract MNCs here to provide access to technology, management know-how and markets. We must maintain our cost competitiveness, to ensure that we do not price ourselves out of the market. At the same time, we should focus on providing an attractive business environment for value-added manufacturing, facilitating their adoption of new technologies and development of new markets. This entails establishing Singapore as a premier regional hub, which companies use as a base for their high value-added manufacturing activities. In particular, we should actively participate in the opportunities that lie in China, leveraging on our unique position of technology leadership, financial centre status and bilingual managers to ride on the growth of China. With the right measures in place, we can ensure a robust future in manufacturing with continued investments and creation of good jobs.

The proposed strategies to further enhance and sustain Singapore's competitive advantage in manufacturing centre on:

- a. *Global leadership* in niche areas through technology, market and enterprise development.
- b. *Value manufacturing*, where there are synergies between high- and lower-end activities, closely integrated by multiple, IT-enabled functions [see [Chart 10.1](#)].

Chart 10.1: Value Manufacturing



Singapore must no longer remain a mere manufacturer of products. We need to develop new capabilities to become an innovative creator of products and businesses. Strengthening the close interlinkages between research and development, IP development and industry will be key to achieving this.

> Key Recommendations

Enhancing Existing Areas of Strength and Developing New Growth Areas

We have focussed on developing chemicals, electronics, engineering and biomedical sciences as the four key clusters that form the nuclei of our current value manufacturing base, upgrading and moving them up the value-added chain over time. The chemicals and engineering clusters have provided a stable base for growth, constantly contributing about a third of our manufacturing value-add. Electronics has been a fast growth cluster notwithstanding the current cyclical downturn. Biomedical sciences is a key growth area for the future. We must continue to grow these areas. The detailed recommendations for each cluster are attached as [Annex 1](#) to this chapter.

Going forward, we need to identify and develop new clusters for manufacturing. Industrial information technology, nanotechnology, photonics and MEMS, alternative fuels and performance materials are promising areas of growth. They cut across various industry clusters and offer enormous potential in the future. Singapore should monitor developments in these areas closely and build up our capabilities in them where necessary in order to retain the relevance of our existing industries and ride on such emerging technologies as a vehicle to create new industrial clusters. We can leverage on our semiconductor, precision engineering and chemical materials capabilities to grow these new areas.

Tackling Cost Issues

We need to maintain the competitive position of Singapore by increasing productivity and reducing costs where possible, especially in the following areas:

- a. *Land Cost* – Land cost is particularly important for manufacturing. We must maximise the value of land resources in Singapore and find ways to keep the cost of land competitive. In particular, Singapore should price industrial land at internationally competitive rates, and even consider renting land on a profit share basis. The colocation with Riau should also be used to reduce overall land costs; and
- b. *Utilities* – Utilities costs in Singapore are higher than in other countries. Electricity, for example, is more expensive because we do not have coal, hydro-electric or nuclear power. Transmission costs are higher because of our urban environment, which require underground cables. Notwithstanding this, however, we should encourage competition and ensure adequate supply, in order to promote efficiency, maintain competitive rates and raise standards. We should avoid cost-plus or monopoly pricing, which will push up overall business costs.

Workers

Manufacturing will continue to provide good jobs for Singaporeans. We will need to prepare our workers for the new manufacturing jobs in the existing key clusters as well as in the new clusters, such as photonics, MEMs and performance materials. We will continue to assist companies with preparation, training and upgrading of their Singaporean workers.

Foreign workers have played a vital role in the manufacturing sector by helping to keep our labour costs competitive. At the low end, foreign workers fill jobs for which we cannot find Singaporeans, especially in factories, and in the construction and ship-repair industries. At the middle level, a proportion of skilled or semi-skilled foreign workers in our workforce help to average down labour costs for businesses and thus increase the number of jobs for citizens.

Without foreign workers manning the night-shifts, there would be no day-shift jobs for Singaporeans. Production costs would go up, and companies would be forced to move elsewhere, where workers are cheaper and more readily available.

We must continue to allow the manufacturing sector to employ a proportion of foreign workers. The inflow must be managed carefully and flexibly, so as to maintain our cost competitiveness, while avoiding serious social problems. This should be done primarily through the foreign worker levy, supplemented with some administrative controls where necessary. This is a more flexible way of managing the number of foreign workers not only in the manufacturing sector but in the other sectors as well, which allows the market to determine where the foreign workers can be most efficiently deployed.

Promoting Research and Development (R&D)

To attract more foreign manufacturing to Singapore, we need to seed more R&D activities in Singapore, putting in place the infrastructure, training the necessary manpower and attracting foreign researchers. We should encourage both public and private organisations to cooperate with MNCs in R&D work so as to encourage the MNCs to base their product development and charters in Singapore. We should also continue to build up our international reputation for R&D.

We have set up the Biomedical Research Council (BMRC) and the Science and Engineering Research Council (SERC) under the Agency for Science, Technology and Research (A*STAR) to drive the overall development of the public R&D infrastructure. We have established and built up research institutes (RIs) to support our industry clusters. We have brought in leading scientists to help expand and deepen our research capabilities. We have incentive schemes to encourage R&D activities.

In the last three years (FY1999-2001) alone, the R&D expenditure of the RIs has totalled \$1.1 billion. These are long-term investment to sharpen our scientific and technological edge, and to build new competitive advantages for Singapore

Our commitment to R&D does not only involve ploughing money into R&D. We need to generate ideas and see that these are commercialised. The focus

should not be on 'research' alone, but on 'development' as well. RIs should therefore concentrate on R&D in new growth areas to attract foreign investment and to spin off high-tech companies in these growth areas.

RIs should also concentrate on developing R&D manpower for industry. This is because a ready and abundant supply of highly trained scientific and technical manpower will be an important competitive factor as industry R&D activities extend upstream beyond product and process development to applied research and technology development, and our industries become more technologically advanced and science-based.

To promote research and commercialisation of innovative ideas in general, we recommend that innovation-oriented tax incentives be considered, including double tax deduction for patent filing costs for companies and individuals. Singapore should also renegotiate current tax treaties with foreign countries to lower withholding taxes for IP income flow into Singapore. Personnel in the research and academic community can be coupled with business mentors and given funds through venture capital schemes such as the Startup Enterprise Development Scheme (SEEDS). Companies can be incentivised to be test beds for new technologies through rapid depreciation allowances or grants for costs of acquisition and skills training.

Strengthening IP Protection & Management

Innovation requires protection, and the acquisition of skill sets required for both IP and legal documentation should be actively encouraged by the Government. The Government has already attracted a strong legal cluster and has joint arbitration agreements with the UK and the US. Companies which have invested here have expressed strong confidence in our IP protection regime. To further strengthen this legal infrastructure, we recommend the setting up of an IP Academy that will become the regional centre for thought leadership and training IP professionals. The goal is to position Singapore as an IP management centre. Royalties will then flow back to Singapore registered patent holders, adding to Singapore's GNP. We can encourage this through incentives, such as double tax deductions or grants for filings.

In addition, many industries have internationally acknowledged regulatory bodies, such as the Food and Drug Administration (FDA) and the Federal Aviation Authority (FAA), which certify products and facilities to indicate that they meet government thresholds for quality and safety. Singapore should secure mutual recognition agreements with these global bodies to become the Asian regulatory centre, which is in line with the existing image of Singapore as 'clean and incorruptible.'

Developing Cluster-focused Infrastructure

Each industry has a common set of services that it requires, which is often unique to that industry but used by all of the companies in that industry. Companies in an industry tend to aggregate in locations where such infrastructure is already in place, therefore making it quick and efficient to start production.

Singapore should thus create cluster-focused infrastructures for key industries to achieve economies of scale, and bring in early innovators to establish critical mass. We have started to do so. Jurong Island, which has positioned Singapore as a world-class hub for chemical manufacturing activities, is a good example of cluster-focussed infrastructure. Chemical companies, linked by common pipeline corridors, buy feedstock and sell finished products 'over the fence', and outsource utilities such as fire-safety services, logistics, storage and terminalling. We should explore how this concept can be extended to other clusters as well.

Developing Supporting Services

One of our strengths as a manufacturing hub has been the presence of a strong base of supporting services. We must continue to develop such capabilities, particularly in the area of supply chain management (SCM).

Facilitating the flow of goods, information and people is key to the success of a global leader. As a world-class logistics centre with sophisticated SCM services, we have attracted companies to locate in Singapore both to support their operations, or as a part of the SCM community. While the Government should

continue to maintain the excellence of underlying infrastructure (roads, ports, airport), we recommend further specialisation of SCM capabilities in Singapore. In particular, Government-established organisations, such as The Logistics Institute-Asia Pacific (TLI-AP), which are maturing into thought leaders in the Asia Pacific, should be encouraged to share knowledge with academia and industry to spark innovations in SCM.

Securing Market Access

Market access is critical for the survival of manufacturing in any country. We support Singapore's active participation in the WTO to liberalise trade on a multilateral basis. Bilateral FTAs complement this by securing access for Singapore to our key markets. The Government should continue its pursuit of FTAs with our key trading partners.

Trade missions overseas, run by International Enterprise Singapore (IES), are also key to market development, as they broaden understanding about the opportunities for commerce. Such missions should increase in frequency and depth.

Taking Advantage of Low Cost Areas

Besides these initiatives, we should take advantage of low cost areas close to Singapore including the Riau Islands and Southern Malaysia. There are synergies to be tapped from combining knowledge-intensive activities in Singapore with more labour-intensive ones in these areas, where land and low-cost workers are more readily available.

For example, we can maximise the potential of the Singapore-Riau twinning model. One way to do so is to include the Riau islands within our FTA framework. We also need to build up a strong base of supporting industries and improve the logistics network between Singapore and Riau. With this infrastructure in place, manufacturing companies can establish their regional operations in Singapore to carry out activities such as product design and rapid prototyping

of system products. At the same time, they can use Batam or Bintan as a low-cost yet nearby location for labour-intensive manufacturing, to be managed and/or supported out of Singapore. This is a winning combination, which many companies will find attractive and consider seriously as a viable alternative to China.

> Conclusion

Notwithstanding the intense global competition, Singapore remains a compelling investment location for MNCs. Many good manufacturing jobs have been created from these foreign investment and more such jobs will be generated in the future. In the semiconductor industry, investors have put in billions of dollars to build wafer fabs here. These significant long-term investment reflect the MNCs' confidence and commitment to Singapore. MNCs also speak highly of the skills, adaptability and productivity of our workers.

Manufacturing will therefore continue to play a key role in the Singapore economy. By leveraging on our competitive advantage, and strengthening our supporting infrastructure and business environment, we can position Singapore as a global leader in value manufacturing, for the next decade and beyond.

Annex 1: Industry Cluster Initiatives

> Electronics

Key Initiatives

- Develop new capabilities in semiconductor equipment, chemicals and materials, industrial design as well as R&D in new technologies including photonics and nanotechnologies.
- Centralise cogeneration facilities for wafer-fab parks that could generate 25 per cent cost savings per participant.
- Improve semiconductor-manufacturing infrastructure through development of shared facilities including training.
- Enhance benefits of twinning with Riau Islands by improving logistical links and supporting industries.
- Grow new industries in photonics, display, network storage and wireless products that benefit from existing 'clean room' capabilities.
- Develop New Supply Chain Models including 'forward hubbing/floating warehouse' facilities.
- Establish specialised funds for wireless IC and fabless IC design.

> Chemicals

Key Initiatives

- Review regulations to encourage more efficient methods of power generation including cogeneration.
- Ensure cost competitiveness of power, including reviewing Transmission and Distribution charges.

- Ensure supply of feedstock by deepening the level of integration and harnessing the potential of new developments in process technology.
- Investigate feasibility of a common product grid on Jurong Island to strengthen supply chain management infrastructure.
- Investigate feasibility of common waste treatment facilities on Jurong Island.
- Encourage environment regulations based on sound science for sustained development.
- Develop quality workforce policy.
- Upgrade logistics capabilities to handle specialised chemicals.
- Build well-connected hub through web of FTAs.
- Enhance supporting maintenance services, with emphasis on enhancing local capabilities in specialised equipment.

> Biomedical

Key Initiatives

- Develop a 'Plug & Play' environment for both manufacturing and R&D, including the support services that span the whole industry.
- Continue to expand and train biomedical sciences manpower pool, through various approaches including A*STAR's National Science Scholarships, EDB's manpower training schemes as well as the industry-led Biomedical Manpower Advisory Committee (BMAC).
- Focus on higher value-added manufacturing and new/advanced manufacturing technologies.
- Build up public research capabilities to support manufacturing activities e.g. Bioprocessing Manufacturing Technology Centre (BMTc), Institute of Chemical Sciences (ICS).

- Promote industry to move towards upstream activities that will help anchor future manufacturing activities through facilitating collaborations with centres of excellence/'Luminary Centres' in our hospitals, the universities and A*STAR's research institutes.
- Expand market access through improving the regulatory environment and increasing recognition by foreign regulatory authorities.
- Enhance marketing & communications strategy to profile biomedical science manufacturing.
- Continue to nurture local venture capitalists (VCs), incubators and startups.

> Transport

Key Initiatives

- Maximise air and sea connectivity to strengthen supply-chain offering to manufacturers.
- Strengthen urban transport solutions offering by creating a sub-cluster.
- Industrialise shipyard operations and strengthen marine sector with more knowledge-based activities.
- Explore use of Riau Islands as an alternative for labour-intensive activities.
- Establish multi-agency effort to encourage innovation platforms, e.g. Singapore Initiative in Energy Technology (SINERGY), using lessons learnt from developing Singapore's infrastructure.
- Build well-connected hub through web of FTAs
- Provide funding and risk-sharing support for key local suppliers in key sectors with high entry barriers to ensure that they become internationally competitive.

Services

Chapter 11 >>

Summary

Even as we maintain manufacturing as a growth engine, we need to put more emphasis on growing our services sector, in the same way as we have done for the manufacturing sector. We must pay particular attention to exportable services, as Singapore has the potential to become Asia's leading services hub, providing an array of world-class services. To tap these opportunities, we need to further upgrade areas in which we already have strong expertise such as trading and logistics, ICT, financial services and tourism, and ensure that they are globally competitive. We should also focus on making Singapore the regional hub for new areas like healthcare, education and creative industries.

**Developing the services engine:
upgrading established strengths,
growing new areas**

> Key Recommendations

Focussing on Priority Areas

- Develop areas in which we already have strong expertise such as trading and logistics, ICT, financial services and tourism.
- Grow new areas such as healthcare, education and creative industries.

Removing Regulatory Impediments

- Put in place the right regulatory structure and framework to promote value added, export-oriented services such as healthcare, education and creative industries, while balancing domestic social considerations. This would include:
 - a. Setting a clear objective of promoting these services given their economic value and therefore the need to review current regulations;
 - b. Reviewing regulations that negatively impact on development of service industries;
 - c. Reviewing whether the responsibilities of an industry regulator should be separated from that of a promoter; and
 - d. Ensuring that the industry regulator is not a player.

Growing Demand

- Promote regional and global demand by:
 - a. Marketing our service industries more aggressively and systematically building up Singapore's branding as a services hub; and
 - b. Simplifying our procedures and regulations to make it convenient for overseas consumers to come to Singapore to make use of our services.

- Stimulate sophisticated local demand, where appropriate, through:
 - a. Government outsourcing of activities including fund management and IT solutions;
 - b. Government catalysing experimental and cutting edge projects, for example, by leading ICT pilots and trials in selected key areas; and
 - c. Promoting private endowments to education, arts and healthcare by favourable tax treatments for gifts to non-profit organisations in these industries.

Developing Manpower for Services

- Conduct a comprehensive review of manpower training for the service industries especially in areas with good potential for growth, including services training at the tertiary level.

Land for Services

- Consider providing land at institutional rates for the development of education and healthcare institutions.

Implementation Strategy

- Designate the Ministry of Trade & Industry (MTI) to coordinate the development of the services engine.
- Set up a Ministerial Committee on Services to manage the tension between economic and social objectives of policies.

Introduction

In 1986, the Economic Committee recommended that the Government should promote services as actively as the manufacturing sector, and make both the twin engines of Singapore's economic growth. Since then, the share of services in our GDP has risen from 61 per cent in 1986 to 65 per cent in 2001. Its share of total employment has also increased from 64 per cent to 74 per cent over the same period.

However, the pace of growth of the services sector in Singapore has not been even. The sector expanded at a rapid rate of 9.6 per cent per annum in 1986-96, until the Asian Financial Crisis threw a spanner in the works in 1997. The crisis took a heavy toll on our services market in Southeast Asia. Between 1996 and 2001, growth of the services sector slowed considerably to 4.8 per cent per annum. Despite making good overall progress in growing our services sector, we have yet to develop it to its full potential. Many of our service industries are not yet world-class, and trail behind the developed countries in productivity and capability.

A key factor is that we have not been as proactive and aggressive in developing the service sector as we have been in manufacturing. Except for ICT and financial services where notable progress has been made in recent years to liberalise and deregulate the industries, we have allowed regulatory hurdles to get in the way of services growth, partly because of genuine socio-political concerns.

Going forward, we need to make focused, concerted efforts to develop our services sector, especially those with export potential. The opportunities for services in Asia are tremendous. With a rapidly increasing base of affluent Asian households, there will be growing demand for higher-end and better-quality services.

We should tap this market because we have what it takes to be a regional services hub. We have a well-educated workforce, good physical infrastructure, a strategic geographical location, a conducive legal environment, and a solid reputation for quality and reliability.

These are important competitive advantages which we must fully exploit.

But because our resources are limited, we need to focus our efforts. We have strong expertise in services such as trading and logistics, ICT, financial services and tourism. But to stay ahead in these industries, we need to further differentiate ourselves, create more value and find new growth niches. Furthermore, we must identify and develop new growth industries as additional cylinders for our services engine. In particular, there is potential for Singapore to become the regional hub for healthcare, education and creative industries. Our detailed recommendations for each of these areas are attached as [Annex 1](#) to this chapter.

On the whole, we need to actively create the conditions that will allow our service industries to thrive and flourish, by removing impediments to their growth and leveraging on enablers that can catalyse their expansion. We propose the following three broad thrusts.

Removing Regulatory Impediments

Compared to manufacturing, services are subject to more regulations. Services like education, healthcare and media have social or public welfare dimensions. Others require regulatory supervision to safeguard standards, as in the case of professional services. As a result, the social concerns of our domestic demand have taken priority over the development of the exportable component. The emphasis is thus weighed towards regulation rather than promotion. For example, for social policy reasons, we have deliberately restricted the supply of doctors and lawyers in Singapore. In some service industries, the Government inevitably gets deeply involved beyond being a mere regulator, to becoming a dominant player. However, the Government agencies' Charter is to provide adequate services for our citizens, not to develop and export these services overseas for economic gains. This has hindered the growth of the exportable component. Healthcare and education are good examples.

To enable services to take off as an engine of growth, we need to address the regulatory issues and remove policy impediments if possible, especially for certain sensitive industries like education and healthcare, where the social concerns are real. We should see how we can liberalise these areas, while being conscious of domestic social considerations.

We need the right regulatory structure and framework. We recommend guidelines and measures to help resolve conflicting priorities and allow maximum freedom for the exportable component to grow and compete internationally:

- a. Set a clear objective of promoting these services given their economic value and therefore the need to review current regulations;
- b. Conduct regular reviews of regulations that negatively impact the development of service industries, and recommendations should be made to MTI to remove or modify such regulations;
- c. Review in each service industry whether the role of the regulator should be separated from that of the promoter. There are instances where a single agency undertaking both regulatory and developmental roles has been able to carry out its responsibilities successfully. But this should not be the general rule. Different industries have different characteristics and market structures. In some cases, there are merits in having the responsibility of growing the exportable component parked outside the regulator, and maintaining a healthy tension between regulator and promoter. We should make a conscious effort to identify the approach best suited to the services industry we want to grow; and
- d. Ensure that the regulator is not also a player. Wherever possible, the Government should actively outsource services to local enterprises, rather than be a service provider.

Growing Demand

To develop the service industries in Singapore, we need to grow demand. Given our small domestic market, we need to leverage on external demand. Some service industries like tourism and trading are internationally-oriented and cater primarily to overseas demand. But even for service industries with a significant domestic demand base, having a strong exportable sector will help to achieve

greater scalability. In any case, the greatest growth potential will come from the fast-rising regional demand, given the rapid development of China and India. We thus recommend the following to promote regional and global demand:

- a. Marketing our service industries more aggressively and systematically building up Singapore's branding as a world-class services hub. This is a key gap in our services development effort. For example, we do not have the equivalent of the British Council or Education Australia to market educational institutions to foreign students. Similarly, for healthcare services, we have lagged behind our regional competitors in marketing despite our superior clinical services; and
- b. Simplifying our procedures and regulations to make it easy and convenient for foreign students, patients, tourists and businessmen to come to Singapore to make use of our services. This includes easing entry requirements, expediting processing, and introducing 'green lane' privileges for selected low-risk, high-value segments.

Domestically, we can further promote sophisticated demand. Having demanding local consumers who have sophisticated needs and expect high standards and quality will encourage experimentation, innovative solutions and cutting edge services. This will raise the overall standard of the local service industries and enable them to compete effectively in the international arena. We recommend the following initiatives to boost sophisticated local demand:

- a. Government to outsource its activities wherever possible, including fund management and IT solutions;
- b. Government to catalyse experimental and cutting edge projects, for example, by leading ICT pilots and trials in selected key areas like trade and financial services, or piloting a 'creative town' initiative to integrate arts, business and technology into community planning and revitalisation efforts; and
- c. Fostering the development of private endowments to education, arts and healthcare by favourable tax treatment for gifts to non-profit organisations in these industries. We should also continue to acknowledge and celebrate such donations.

Developing Manpower for Services

Developing manpower is a national imperative that is common for both manufacturing and services. However, services are especially talent-dependent.

Until now, we have deliberately directed our education and training policies towards producing people with hard technical skills, rather than a softer general education. This has produced a numerate, technology-savvy society, and supported a vibrant manufacturing sector.

Our overall strategy should maintain this bias towards technical and engineering education. However, as we develop service industries with good growth potential, we will also need to train and equip sufficient people with the capabilities and knowledge to work in these new areas. We therefore recommend a comprehensive review of manpower training for the service industries. This review should also address the absence of training of service at the tertiary level.

Land for Services

Besides manufacturing, we should set aside sufficient land for new service industries. For example, an education industry will require significant amounts of land for institutions and support facilities like student housing. The healthcare industry too will need land for hospitals.

We should also ensure that our land cost for the services sector is competitive. The Government should consider providing land at institutional instead of commercial rates for the development of education and healthcare institutions.

Implementation Strategy

As the development of services involves issues that cut across the purviews of various Government agencies, it is not practical for a single agency to be responsible for co-ordinating the diverse policy positions and reconciling the different economic and social objectives. A distributed approach leveraging on the resources and competencies of the various economic agencies is the practical way to go. However, we should assign a Ministry to play a coordinating role, and propose that MTI be designated for this task. It should work with the champion agencies for the respective service industries to tighten inter-agency coordination, improve client account management, and streamline incentive and assistance programmes.

MTI and the various service champions can only achieve their mission if they have the wholehearted support of the regulators. The tension between economic and social objectives will have to be managed. We therefore recommend the setting up of a high-level Ministerial Committee on Services to provide a platform for such policy debates to be conducted so that optimal trade-offs can be made.

> Conclusion

We have what it takes to be a world-class services hub. But realising the ambition will require a concerted effort on the part of both the Government and the industry players. There is a need above all for a change in attitude and mindset towards services development.

We have already built up strong competencies in the established service industries like trading and logistics, ICT, financial services and tourism. The prospects for Singapore in these industries continue to be good, provided we can reinvent ourselves and find new ways to create value. We must leverage on our strengths, upgrade our capabilities and sharpen our competitive edge. At the same time, we should grow promising new service industries like education, healthcare and creative industries, which will provide added growth impetus. With renewed vitality of established services and the growth of new services, we can become Asia's leading services hub, providing an array of world class services.

Annex 1: Initiatives for New Services Industries

> Education

Key Initiatives

- Develop tertiary education sector. A vibrant university sector would not only attract and develop top talent, but also help to create jobs and wealth.
- Build up commercial and specialty schools segment. We should build a nexus of 40 high-quality schools, each enrolling at least 1,000 international students.
- Make Singapore a centre for corporate training and executive education. Encourage more MNCs to anchor their regional training centres in Singapore and promote reputable institutions to provide high-quality short executive training courses,
- Position Singapore as a regional destination of high-quality preparatory and boarding schools. This would serve as an important feeder into the local and foreign higher education institutions.
- Develop supporting services, particularly in the areas of eLearning and testing and assessment.
- Set aside land at institutional rate to support these developments.
- Build up manpower availability. More teachers, faculty, administrative professionals and instructional designers would be needed. Encourage prestigious foreign teacher training colleges to set up branch campuses in Singapore.
- Establish an Education Promotion Agency, along the likes of the British Council and US Education Information Centre. This would be a centralised agency with overseas offices to attract international students to Singapore.

- Facilitate the establishment of a quality assurance system for the private commercial and speciality schools. This is to help providers upgrade the quality of their offerings, introduce transparency in the marketplace and in the long run, safeguard and upkeep Singapore's reputation as a hub for quality education.
- Streamline student visa requirements and processing to attract international students.

> Healthcare

Key Initiatives

- Review the regulations in the Public Hospitals and Medical Clinics Act (PHMCA) with a view to relax restrictions on responsible, institution-based advertising locally and abroad.
- Establish and communicate an internationally recognisable quality brand for Singapore's healthcare services sector emphasising trust, safety and excellence.
- Establish a responsible healthcare consumer forum for greater transparency on pricing and clinical practice norms.
- Establish one-stop centres in key regional markets to make it more convenient for foreign patients to come to Singapore.
- Ensure an adequate supply of land at institutional rates for these developments
- Expand the sources of medical manpower. If necessary, foreign-trained MD/MBBS graduates could be put through an entry examination to ensure quality and suitability.
- Increase the supply of nursing and paramedical manpower, especially by facilitating the flexible recruitment and retention of foreign nursing and paramedical manpower.
- Lift the quota on the female intake at the NUS MBBS medical school.

- Allow dual employment of specialists by the private and public sectors. This would enable foreign patients to have better access to specialist expertise in the public sector.
- Introduce, selectively, sub-vented healthcare at private facilities. This would help generate economies of scale in the private sector and enable them to provide more cost-competitive services.
- Encourage a Clinician-Scientist mindset by for example, ensuring protected R&D time, and structuring an alternative career track for Clinician-Scientists;
- Encourage physical clustering of basic and clinical research for public and private institutions, similar to that of successful Clinical Medical Hubs, e.g. Mayo Clinic and Memorial Sloan Kettering.

> Creative Industries

Key Initiatives

- Embed arts, design and media within all levels of education. For example, drama and literature could be employed to help students enhance their language abilities.
- Establish a flagship art, design and media university programme.
- Establish a MediaLab in Singapore to nurture multidisciplinary researchers of the highest calibre.
- Develop Mediapolis@One-North to strengthen and heighten the visibility of Singapore's efforts in developing our media industry.
- Position Singapore as a media exchange to enable us to gain a strategic foothold in the creation, acquisition and exploitation of media copyrights.
- Establish a National Design Council to champion the design cluster.
- Promote arts and cultural entrepreneurship in areas such as recording music, publishing, cultural tourism, art, heritage and library consultancy services etc.

Human capital

Chapter 12 >>>

Summary

To successfully implement all these longer-term strategies, our people must have the right hard and soft skills. We must focus on developing our human capital, ensuring that as many Singaporeans as possible are equipped with the know-how and skills for a knowledge economy. We must strengthen our people's skills at analysing problems, communicating ideas, and managing people. We must inculcate values such as resilience and openness, and imbue our people with outward-looking, global mindsets. At the same time, we must entrench the habit of lifelong learning, and prepare adult workers for the new jobs being created. We must also open our doors to foreign talent, to supplement our own talent. This will help make Singapore a vibrant and diverse metropolis where both local and foreign talent to work and play.

Equipping Singaporeans for the future

> Key Recommendations

Developing the Full Potential in Every Individual

- Allow for the holistic development of youths through a more flexible school curriculum that allows for wider access to subjects of humanities and sciences and the integration of arts and sports.
- Give the universities greater flexibility in admissions criteria and courses to meet student and industry demands.

Manpower Planning

- Government to continue its role in national manpower planning, but adopt broader approach to allow greater flexibility and diversity.

Fostering a Global Mindset

- Develop in Singaporeans a global outlook, and the skills, knowledge and motivation needed to operate in an increasingly interconnected world.
- Facilitate the re-entry of overseas Singaporean students, including looking into the special relaxation of mother-tongue language requirements for the relatively small group of Singaporeans seeking re-integration into our school system.

Tapping Overseas Network

- Set up the Majulah Connection to build on overseas circles of Singaporeans and Friends of Singapore, and to enhance our business networks.

Attracting Foreign Talent

- Continue to attract foreign talent from all over the world to supplement the local talent pool.

Enhancing Human Capital Management

- Raise the capabilities and professionalism of human resource (HR) practitioners through training and a recognition scheme.
- Set up a HR Centre of Excellence within the Singapore Business Federation to drive excellence in HR practices in the private sector.
- SPRING Singapore to work with SME associations to enhance HR functions and competencies among SMEs.

Enriching the Environment

- Support Arts, Culture, Sports and Recreation (ACSR) through funding strategies to recognise their contribution to national economic development.
- Increase awareness and provide opportunities for people to participate in ACSR activities.

Introduction

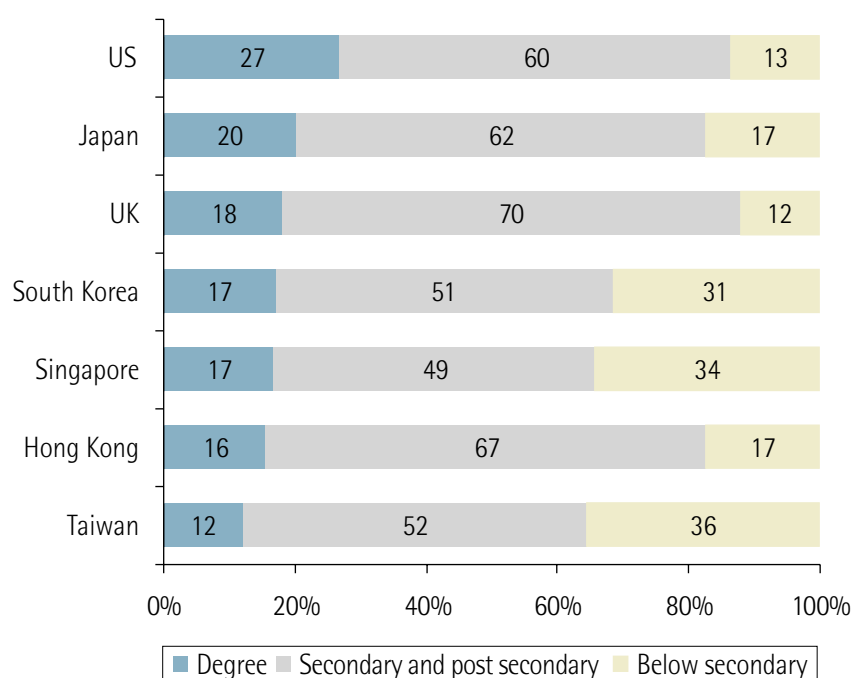
Human capital is a key resource for an aspiring global city-state. It differentiates major, vibrant cities from the rest. While Singapore may not have the size to be a mega city like London or Shanghai, we can strive to be a global city like Boston or San Francisco. Without our own hinterland, the challenge is greater. We should endeavour to ensure that Singaporeans continually hone their skill sets as well as strive for excellence. These are amongst the critical success factors for developing a dynamic knowledge economy in a global city-state.

Education and training have been consistently high on the list of priorities for Government spending. A well-educated, skilled and hardworking workforce enabled Singapore to grow and prosper economically over the past 40 years. Our efforts to attract MNCs to develop a vibrant manufacturing sector were supported by a rigorous education system. We were able to produce workers who were competent in vocational skills, technical expertise or scientific know-how at the post-secondary level.

However, as Singapore charts a new economic course, our manpower strategies must adjust accordingly to remain relevant and responsive.

First, while we have been ranked top worldwide for technical skills by BERI 2001 and there has been a marked improvement in the educational profile of recent cohorts, our workforce still lags behind in worldwide comparisons [see [Chart 12.1](#)]. There are thus gaps in our human capital distribution. At the top end, we will continue to need skilled knowledge workers and managerial talent which we are now lacking. But we also have a large pool of workers who lack formal qualifications whom we must retrain and upgrade.

Chart 12.1: Educational Profile of Labour Force, 2001



Source: Ministry of Manpower; Census and Statistics Department, Hong Kong Special Administrative Region, People's Republic of China; Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Republic of China; OECD

Second, while the manufacturing sector has maintained its share of contribution to GDP growth over the past ten years, manufacturing employment has decreased steadily. The sector employed 28 per cent of the workforce in 1991, but the figure fell to 19 per cent in 2001. The services sector, on the other hand, has increased its share of employment over the same ten-year period, from 65 per cent to 74 per cent. With the shift towards services, new capabilities and knowledge will have to be acquired by the workforce to meet industry needs.

Third, beyond industry-specific skills, broader skills sets are required. Specifically, we need an environment that encourages creativity, intellectual curiosity and risk-taking. We must inject more flexibility and diversity in the education system to develop Singapore's human capital. With the push to internationalise Singaporean firms, we also need to inculcate a global mindset among Singaporeans

and ensure that they can succeed in a global environment. We must also continue to attract international talent to supplement our human capital.

Singaporeans must be imbued with skills and competencies for lifelong employability so that organisations can have the competitive manpower they require for a knowledge-based economy. Besides technical and knowledge competencies, our workforce will be equipped with people management, problem analysis and communication skills. We must also embed in an organisation's human capital management systems, the development of leaders who can motivate and inspire their employees and have the drive to nurture and develop their employees to their maximum potential.

> Developing the Full Potential in Every Individual

To prepare our people for a rapidly changing world, our education system and adult-training systems would have to change correspondingly. The education and training roadmap should move from uniformity to diversity, from rigidity to flexibility, and from conformity to resilience. The aim is to bring out the full potential in every individual.

Reforms in Education Sector

Much has been done in recent years in the education sector. In schools, the curriculum has been streamlined and revised to provide our students with opportunities to think, reflect and explore, through open-ended activities, project work and more skills-oriented assessment modes. The university admission system has also been broadened to take into account other components outside the 'A' levels, including co-curricular activities, reasoning ability and project work.

Going forward, we welcome MOE's move towards providing greater diversity of options and opportunities. The JC/Upper Secondary landscape, for example, will

cater to different talents and aspirations of students, with a range of educational pathways, in terms of different programmes, mix of schools and alternatives with stronger multi-disciplinary orientation. The Integrated Programmes will provide a seamless upper secondary and JC education for students who can benefit from a less structured system. The time freed up from not taking the 'O' levels can be used to engage in broader learning experiences.

We also welcome the establishment of new specialised Independent schools for students with talents in special fields. The Sports School will commence operations in 2004. NUS is planning to run a Mathematics and Science School. The Ministry of Information and the Arts and the arts community will be studying the feasibility of an Arts school. Schools will also be allowed to offer alternative curricula and qualifications for the 'O' and 'A' levels, so long as these are internationally recognised.

In the tertiary sector, initiatives to expand opportunities in the post-secondary sector, including restructuring the Institute of Technical Education into regional campuses, and the setting up of the new Republic Polytechnic are underway. The ongoing restructuring of the university sector will inject greater diversity in the provision of university education to better cater to larger cohorts with more varied educational needs and aptitudes. In particular, we support transforming NUS into a multi-campus university with niche campuses NUS Outram and NUS Buona Vista, and evolving NTU into a comprehensive university by expanding its disciplinary provisions. These changes will allow the university sector to expand by leveraging on the strengths of existing institutions, while positioning the sector as a whole to achieve excellence in attracting, developing and retaining talent for Singapore.

These efforts will see us developing Singaporeans to their fullest potential, with the requisite thinking skills, resilience, communication skills, global outlook, openness and people skills. Their educational experience will also be less uniform and richer. This will lend us a diversity of talents to draw on.

> Manpower Planning

The Government has traditionally played a significant role in national manpower planning, and we believe that this should continue. The Government possesses the necessary planning data and macroeconomic indicators to make informed assessment at the national level on the future economic trends, and consequently the future manpower needs of Singapore. Moreover, significant public funds are invested in education and in manpower development. The Government thus has an obligation to ensure that these tax dollars are directed in a manner that optimises the outcome for the nation.

In setting the parameters for manpower planning, however, we believe the Government can adopt a broader approach. The market is changing more quickly, demanding a wider range of skills. With rising affluence, Singaporeans now also have the resources to pursue their own choices in Singapore and overseas. The Government must therefore allow greater flexibility at the individual level and be more responsive to market signals, within the broad manpower planning framework. Our institutions should be given more flexibility to adjust intakes into the various courses they offer. They should also explore offering hybrid programmes cutting across multi-disciplines. More timely and focussed market information will also help the institutes of higher learning, students and parents be better informed about changes in employment opportunities and the competencies sought by companies.

> Fostering a Global Mindset

The success of Singapore in transiting to a knowledge economy necessarily implies regionalisation and globalisation. Singaporeans therefore must have a global mindset and be capable of operating effectively in the international environment. Singaporeans who spend the whole of their working lives in Singapore are unlikely to fully develop the breadth and depth of skills and perspectives needed to be effective global managers. We therefore need to actively develop in Singaporeans a global outlook, and the skills, knowledge and motivation needed to operate in an increasingly interconnected world.

This requires a multi-pronged effort including, among other things, developing Singapore as an education hub with a diverse mix of institutions, including branch campuses of foreign universities in Singapore, facilitating more exchange programmes between Singapore and other countries, incentivising Singaporeans to acquire core internationalisation skills and facilitating more mutually beneficial postings between the civil service and the progressive public services overseas, and/or the private sector. The Government efforts should be strategically focussed, to avoid inadvertent hollowing-out.

We would need to address the impediments faced by Singaporeans in taking up overseas postings. This would include relaxing mother tongue language requirements for this fairly small group of Singaporeans seeking re-integration into our school system, facilitating the re-entry of children of parents on overseas postings, and building a greater network of Singapore International Schools to cater to the needs of Singaporean children overseas where there is sufficient demand.

> Tapping Overseas Networks

Today, many Singaporeans are venturing overseas to study, work and live. While this means an outflow of local talent, we have to accept this as part of globalisation. There are advantages for Singapore because these overseas Singaporeans make up an extensive network across the globe, rich in a diversity of experience and knowledge of different countries. We must maintain links with these fellow Singaporeans, to keep them connected to Singapore and tap their vast networks abroad as well as their expertise and different perspectives from having lived overseas.

This was what the ERC had done. In the making of this report, the Committee greatly benefited from significant contributions from the Singaporeans Overseas Networks (SONs) formed in April 2002 by Singaporeans living abroad, specifically to give inputs to the ERC's work. We had therefore proposed, and are happy to note, the setting up of the Majulah Connection by private Singapore citizens, to maintain links and build up a network of overseas Singaporeans to get them to contribute to the nation while they are away from home.

> Foreign Talent

Talent has become a key resource in a globalised world. The appeal and receptiveness of cities like Boston and San Francisco to talent, whether indigenous from their hinterland or from the rest of the world, is a key reason why these cities thrive. Today, even emerging economies like China and India also compete for global talent. For example, some Chinese universities are going all out to attract top academics from abroad with internationally competitive remuneration.

To sustain our economy in this environment, and indeed to maintain the standards of living which we have achieved as a first-world country, we must do the same. While there are many talented Singaporeans, our indigenous talent pool is not deep enough. We must therefore seek talent from around the world, develop a healthy mix of indigenous and global talent, and encourage all our talent to identify with Singapore.

Bringing in foreign talent is a sensitive issue in any society, even an immigrant society like Singapore. This is especially so during economic downturns when retrenchments and unemployment rise. The sentiment is understandable, but the reality is that keeping out global talent will not create more jobs for Singaporeans, while sending away foreigners who are already working in Singapore may cause the economy to spiral down further. Moreover, global talent may be attracted to competing cities in Asia, and this will have profoundly adverse impact on Singapore's aspiration to become a leading global city.

Singapore must therefore continue to attract and embrace talent from abroad. We must make Singapore a place where opportunities abound, where able and enterprising people want to live, work and play, and where global talent are welcomed and integrated into the Singaporean community. Developing a healthy mix of indigenous and global talent, and encouraging them to identify with Singapore, is critical to our continuing quest as a dynamic knowledge economy. While this will mean tougher competition for Singaporeans, such an economy would also offer more opportunities for every level of our society.

> Enhancing Human Capital Management

We need our organisations to consciously enable workers to be at their best, and at the same time, build and expand their capabilities to become more productive, more resilient, able to tap their creativity and initiative, and bring forth new innovation. In this environment, human capital management (HCM) is no longer a supporting function for resource administration, but a strategic leadership and management responsibility. Thus, we propose to develop HCM as a strategic capability in our organisations and upgrade the manpower industry to raise HCM competencies.

Develop HCM as a Strategic Capability in Our Organisations

HCM must be seen as a strategic function that contributes to achieving the company's business mission rather than an ancillary activity. All CEOs and managers have a key role in developing human capital to sustain a company's competitive advantage in the new economy, where growing human capital is not just a function of good HR practices. Leadership and management of people can make the difference. This requires a change in existing mindsets of corporate leaders, managers and HR professionals. We therefore propose to provide continuing education and training to equip HR managers with business skills and to raise the people-management and HR capabilities of business enterprises.

Upgrade the Manpower Industry to Raise HCM Competencies

We need to develop the manpower industry because a dynamic manpower industry will help improve labour market mobility through job matching and placement, and training of people to meet the needs of industry. The upgrading of HCM will translate into enhanced development of our leadership, management and talent pool.

In Singapore, there is currently no practice or requirement for HR practitioners to seek professional recognition, unlike some developed countries which have established recognition systems. We need to look into ways to enhance the professionalism of the HR industry in Singapore, including establishing recognition systems for competency standards.

In the long run, we believe that the initiative to reposition HR practices for the future should be driven by the private sector. This is likely to be more effective and sustainable. We recommend that SBF drive this initiative. A HR Centre of Excellence can be set up within the SBF to do this.

Special attention is required to transform the HR functions within SMEs. In contrast with the SBF arrangement, where an umbrella organisation represents all larger employers, the SMEs are represented by a range of organisations. We recommend that SPRING Singapore, which oversees SME development, leads the Government's efforts in working with these organisations to enhance HR functions and competencies within SMEs.

Re-aligning Human Resource Practices

In the new employment landscape, workers will face increasing uncertainties about job security. Employers and the HR profession should help to develop systems that safeguard the interests of workers as they change employers or are in between jobs. As a start, this could be done in the areas of medical benefits and retirement savings (for workers on alternative work arrangements).

Employers and the HR profession should also step up efforts to innovate and design equitable performance-based and flexible wage systems. Such systems result in companies paying according to the worth of the job and the worker's contribution to the company. This will contribute to a more flexible and efficient labour market for all workers.

The current downturn has shown that mature and better-educated displaced workers also face difficulties finding new jobs. These workers represent a pool of resources with a wealth of experience that can be tapped on. We recommend that employers, together with the HR profession, consider how companies can maximise the value of these workers.

> Enriching the Environment

Besides political stability, work opportunities and a well-educated workforce, other attributes such as rich cultural and sports programmes are necessary to create a conducive environment that can provide a competitive edge over other urban centres in attracting and retaining global talent.

Such a high level of cultural and sports activities compensates for our small size, strengthens our national identity, deepens our sense of belonging and acts as a 'social glue' for our people. A cultured and gracious environment is a necessary component in our efforts to develop well-balanced, creative, resilient and innovative individuals as described earlier. The proposed environment can be created by:

- a. The Government signalling support for Arts, Recreation, Culture and Sports (ARCS), through funding strategies to recognise their contribution to national economic development, tax incentives to encourage private/people/public sector partnerships, and spearheading the drive to coordinate the development and promotion of recreation; and
- b. Increasing awareness and providing opportunities for people to participate in ARCS activities. The National Arts Council (NAC) and National Heritage Board (NHB) should forge partnerships with relevant agencies and intensify the drive to raise perception of arts and culture in the minds of Singaporeans. We should accord outstanding artists and sportsmen greater public recognition, including the conferment of the title of national treasures on deserving personalities. We should evolve our own Singaporean identity as a unique cultural icon.

> Conclusion

Moving forward, these recommendations seek to produce the globally relevant, empowered individual for the new knowledge economy. We envisage each Singaporean being imbued with the necessary mindset, skills and competencies to excel in the new environment, with resilient and entrepreneurial individuals creating wealth and ensuring the continued prosperity for our country. We envision our people rooted in and sustained by the country that believes in them.

Restructuring and employment

Chapter 13 >>>

Summary

We need to manage the pain and dislocation associated with economic restructuring so that they will not cause Singaporeans to resist urgent and essential changes. We need to help workers understand the changes taking place and what they imply for us. We must provide workers with training and job counselling and match retrenched workers with new jobs. We must also help those who are out of work, especially those with young families, to tide over difficult times.

Helping Singaporeans to face up to the challenges

> Key Recommendations

Enhancing Skills Training

- Establish a national Continuing Education Training (CET) body to oversee the development of lifelong learning in Singapore.
- Establish a Centre for Adult Learning (CAL) to serve as a one-stop centre for individuals and employers to sign up for training programmes and grants.
- Consider setting up portable training accounts for workers or establishing training funds based on the pooling model to support individual-initiated training with industry associations as surrogate employers.

Helping the Unemployed Find Jobs Quickly

- Help Singaporeans understand changing employment scene and its impact and implications, and adjust their mindsets and expectations.
- Adopt different strategies for different groups of job seekers, including developing a labour market intermediary industry for the middle band, and having the Distributed CareerLink Network (DCN) established by MOM focus on helping the lower band with placement incentives.
- Augment the MOM job bank by tapping on information which EDB, industry HR groupings and Government agencies have on job vacancies.
- Re-engineer existing industries to create jobs for locals through professionalisation of jobs and developing turnkey programmes to facilitate the entry of locals. This should include the development of emerging industries, such as eldercare and domestic services, and reducing barriers for informal sector employment.

- Adopt a comprehensive re-employment approach with job counselling, training, job search assistance and subsidised job attachments for the unemployed.
- Build up a pool of professional job counsellors in the economy to help Singaporeans adjust their mindset and expectations to the new realities of the job market. Employers and the HR profession should also be encouraged to build capabilities in the area of career counselling.

Providing Assistance for the Needy & Unemployed

- Restructure the Interim Financial Assistance Scheme (IFAS) to incentivise work. Individual progress plans should be drawn up as part of the IFAS application process to encourage recipients to seek work or attend relevant training.
- Simplify the assessment system and methods for families with hardly sufficient household incomes so that they can get assistance more promptly. For families at the margin with higher level of household incomes, to implement a thorough assessment of their needs instead of the current practice of focusing on household income at face value, taking into account savings and retrenchment benefits received.
- Review and rationalise the assistance schemes run by the Community Development Councils (CDCs) and government agencies to ensure that they remain relevant and effective.

Introduction

Singapore has had full employment over most of the past four decades. Going forward, the increasing competition we face and our evolving demographic profile will change the employment landscape. Workers are likely to face more frequent job displacements, changing labour market and employment practices, new requirements for skills and an increasing threat of long-term unemployment.

Our main strategy should be to build the essential systems that would help Singaporeans develop capabilities in the new economy. This must be complemented by systems to help displaced workers transit back to employment quickly, equipping them with new skills and providing interim financial support where necessary, but not creating dependence or sapping the will to achieve.

> Enhancing Skills Training

Acquiring new skills to take on changing jobs or entirely new jobs is critical to staying employed in the new environment. In this respect, employer-based training has and will continue to be the key approach, as it ensures relevance in training and ultimately, employability. However, there are limitations to such an approach. In particular, workers who need to position themselves for new jobs will not be reached because employers are more likely to train workers for immediate job needs and not future jobs. Furthermore, the increasing pool of workers on non-traditional work arrangements, such as temporary and contract workers, and free-lancers will also not benefit from employer-based training.

We therefore propose complementing the current system of employer-based training with individual-initiated training. This will provide an avenue for those who need training but face structural barriers in accessing employer-based training. One way of providing such training is to set up a portable training account for workers to fund individual-based training. Workers can then choose the courses they want to upgrade themselves with. Another approach is that adopted by the NTUC Education and Training Fund (N-ETF), where funds are pooled and made available to union members to draw on for skills training.

The effectiveness of such individual-initiated training can be maximised by ensuring that training courses are relevant to industry. The Government should work with more industry associations to ensure this. These associations can be appointed as 'surrogate employers'. They can then play the role of screening and cofunding individuals for industry-related training. The Government could also consider applying the principle of rewarding training service providers according to the success of their trainees in finding jobs.

Continuing Education and Training (CET)

While a person may spend 16 or more years in formal education, he will probably spend two to three times that period being economically active. However, at the national level, we are spending less on CET than on pre-employment, formal education and training. CET efforts have also been less coordinated. SPRING Singapore has upgrading and retraining of our workers as part of its mandate. Separately, NTUC runs programmes like the Skills Redevelopment Programme for union members.

As CET is critical to augmenting Singapore's human capital, and helping Singaporeans adapt to the constantly changing economic landscape, we should adopt a more focussed and sustained approach, backed by the necessary resources and infrastructure. This will send out a strong message to raise the overall awareness of the importance of upgrading and relearning for continued skill relevance and employability.

We recommend that a national CET body be established to promote and oversee the development of CET in Singapore. This body should look into expanding the role of the existing Industry Skills Standards Committees (ISSCs) to include the development of a CET framework for their particular industry or cluster. It should also reconfigure the national training system to enhance access to training for those who need it, and to complement employer-based training with individual-initiated training.

We also recommend establishing a CAL. This can serve as a focal point for research and development in critical adult training capabilities relevant to local needs, the training of trainers and the promotion of best practices in lifelong learning.

> Helping the Unemployed Find Jobs Quickly

Adjusting Mindsets and Increasing Job Opportunities

Experience during this downturn has shown that there are industries such as wafer fabrication, hotels and the shipyards, where well-paying jobs are still available. However, many unemployed Singaporeans have not taken up these jobs, either because they offer lower pay, involve different and unfamiliar working conditions, or are in industries which Singaporeans are traditionally biased against.

We must thus help Singaporeans grasp the changing employment scene and its impact and implications, and get them to adjust their mindsets and expectations. Our workers must understand and accept that many of the old jobs lost will never come back. They must adapt to the new, changing environment, learning new skills, and accepting new work conditions including more service-oriented work, less convenient work locations and working shifts. Otherwise, even as new jobs are created and older, lower value-added ones phased out, they will face difficulty finding employment.

We should also improve the image of those industries where there are job vacancies. We propose the following:

- a. Embark, more aggressively, on job redesign and professionalisation in sectors which have potential for the redeployment of local workers. This should lead to higher productivity and wages, as well as improved work conditions and job image;
- b. Intensify efforts to encourage the training of existing workers in identified sectors so as to build up a professional industry image;
- c. Target efforts to disseminate information on sectors that offer job opportunities for locals, to dispel misconceptions about certain jobs and increase the pool of jobs that locals are willing to consider; and

- d. Expand place-and-train programmes to more sectors. Under such programmes, unemployed workers are pre-screened by potential employers who would then agree in principle to hire these workers after training. Experience has shown that such programmes show better results both in terms of worker motivation and placement results.

There are also job opportunities in new industries and the informal sector. For example, with an ageing population, there is likely to be increasing demand for eldercare, healthcare and domestic services. We recommend that the development of these industries be spurred to add to the pool of jobs for older and less educated Singaporeans.

In addition, some of our most vulnerable workers may find employment in the informal sector a viable option. We recommend that the Government reduce barriers to such arrangements where possible.

Better Information Dissemination

One reason for the low takeup rate of available job vacancies notwithstanding the number of unemployed Singaporeans may be the lack of access which some Singaporeans have to job market information. There is thus a role for labour market intermediaries to play in reducing labour market frictions and link workers with jobs, and we should help them strengthen their capabilities to perform this role effectively.

The establishment of the DCN by MOM is a first step in developing effective market intermediaries. To further enhance this mechanism, we recommend that DCN sharpen its focus on the bottom band of workers and where suitable, involve private sector players with the required capabilities.

Access to a job bank with significant number of jobs of value will also help labour market intermediaries with their job placement efforts. We recommend that the MOM job bank be augmented to include more jobs of quality. In particular, MOM should work with the industry HR groupings to augment the MOM job bank with relevant job vacancies from the various sectors. In addition,

EDB can encourage companies to post their jobs vacancies in MOM's job bank. We also suggest that all public sector job vacancies be posted in the MOM job bank.

Re-employment

Singaporeans who have been out of a job for a prolonged period may also suffer from a lack of confidence or track record to secure re-employment even after job training.

Various Government-funded programmes are already in place to help Singaporeans retrain and re-enter the labour market. This includes the 'People for Job Traineeship Programme' (PJTP) run by MOM and the Skills Redevelopment Programme run by NTUC. These programmes provide financial support for Singaporeans to acquire new skills and remain employable. This principle should continue to be applied. The Government should also evaluate these schemes from regularly, and improve their effectiveness.

In addition, we recommend a comprehensive approach to help people find new employment. The objective of such a programme is to help the unemployed identify his personal competencies and aspirations, find jobs that are suitable for him and learn about the additional skills that he needs to develop to secure employment. The trainee then commits to an individual plan comprising funded training in the appropriate courses, job search assistance and subsidised job attachments or apprenticeships.

We also recommend that more resources and stimulus be given to build up a pool of professional job counsellors in the economy. These counsellors can provide more information on the jobs available and help job seekers adjust their mindset and expectations to the new realities of the job market. Employers and the HR profession should also build up capabilities in this area of career counselling.

> Providing Assistance to the Needy & Unemployed

Unemployment insurance (UI) is one of the options adopted by some countries to help with the financial needs of the unemployed. We studied this and found that UI schemes were frequently fraught with implementation difficulties. Aside from reservations that UI might create incentives for possible erosion of work ethics, such schemes tend to fail to be viable at the point of greatest need. This is because unlike life insurance or even health insurance, the risks in UI are not life-cycle driven but business-cycle driven. We therefore believe that a better approach would be to enhance our current assistance schemes to help unemployed Singaporeans get back into work.

Restructuring Financial Assistance to Incentivise Work

The IFAS is a short-term social assistance scheme administered by the CDCs to help lower-income individuals and families tide over difficult periods, including period of unemployment. As the basic intent is to provide temporary and not prolonged assistance, we must help these unemployed Singaporeans get back to work as quickly as possible. We recommend restructuring the IFAS to incentivise work so as to strengthen the linkage between financial and employment assistance. This can be done by giving IFAS grants with the expectation that the recipients actively seek work or attend relevant training.

We also recommend that Individual Progress Plans (IPPs) be drawn up for workers to enhance their chances of re-employment. Under this arrangement, a CDC job counsellor could work with the client and the Social Assistance caseworker to draw up an IPP. Such a plan would indicate obligations that the client has to comply with for the receipt or renewal of the monthly grant. The IPP obligations include commitments to attend job counselling and job interviews, take up suitable job offer or attend relevant job training.

Tailoring Help

To be meaningful, help must be tailored to target those who need it most, and based on an assessment of where we can make the biggest difference. Help must also be administered flexibly and sensitively, and not based on rigid application of quantitative guidelines such as minimum household income conditions.

The Government cannot do this on its own. It should tap on grassroots leaders and Voluntary Welfare Organisations (VWOs), who come into regular, personal contact with Singaporeans in need, and thus are able to identify the ones with genuine financial difficulties.

Streamlining Assistance Schemes

There is currently a multitude of schemes administered by the CDCs, other Ministries and a number of non-governmental organisations (NGOs).

We should encourage this approach of having many helping hands from NGOs in tandem in Government efforts. On the Government's part, we recommend that the design of various assistance schemes run by the CDCs and different Ministries and statutory boards be reviewed to rationalise the schemes so that they are more consistent in their target groups and criteria. The schemes should not be an end in themselves but rather, aim to help the families move towards self-reliance. The assistance must be temporary and have built-in review periods.

The availability of a scheme does not mean that the target clientele will definitely be reached in a timely manner. There may be barriers to quick access to services in the form of administrative processes. There is a need to review and streamline processes for timely service delivery. We recommend that clear service standards, referral processes and audit mechanisms be laid down for social assistance schemes and that these standards be reviewed periodically for relevance. The service standards should specify time frame in processing of applications and service quality.

> Conclusion

The measures recommended in this Chapter are important to help Singaporeans cope with the immediate impact of restructuring and unemployment. But more fundamentally, the unemployment rate is directly linked to the burden of statutory charges on wages and the state of the economy. The lighter the statutory burden on employers, the easier it will be for Singaporeans to be employed and the lower our unemployment will be. The ERC has recommended measures to keep the statutory wage burden as low as possible in Chapter 6, including, for example, reducing the employees' contribution rate for low-income workers, and for workers aged 50-55, which will help these two groups of workers find or keep their jobs. These measures should be implemented as soon as possible.

We should also expect that in a recession, unemployment will go up beyond its normal level. We will need to do more to help people find jobs quickly, and assist the unemployed and their families. However, we should avoid taking protectionist measures such as closing our doors to foreign workers, which will only worsen the situation. The best solution is really to restore the economy to growth as quickly as possible, by cutting costs, making ourselves more competitive and growing our exports.

The changes in the employment landscape will pose great challenges to Singaporeans. But although unemployment will be higher than before and the environment will be tougher, Singaporeans should remain united and confident. If we work together, adapt ourselves to the changes, and acquire new skills through retraining and upgrading, we will restore growth, create more jobs and improve the lives of all citizens.