

EXECUTIVE SUMMARY

1. Since independence in 1965, the Singapore economy has grown robustly at an average rate of 8.9 % per annum. Growth was interrupted by a recession in 1985, but then recovered dramatically to expand by an average of 8.3 % per annum until the regional economic crisis erupted in 1997.
2. The Committee on Singapore's Competitiveness (CSC) was formed in May 1997 to assess Singapore's economic competitiveness over the next decade and propose strategies to strengthen Singapore's competitive position. While the CSC was deliberating, the economic crisis swept through the region and altered our external environment suddenly and significantly. The crisis has continued to worsen, and indeed is threatening to become a global problem. Singapore will face weaker demand for its goods and services until the region recovers. Furthermore, the rapid, sharp weakening of the regional currencies against the Singapore dollar since the crisis began has affected our relative competitiveness. We must act decisively to restore our competitiveness and enable our economy to weather the crisis.
3. The crisis-hit economies are undertaking structural reforms to address their problems. When they complete their reforms and recover, they will emerge leaner and more competitive. Singapore has therefore to look beyond the immediate crisis, to make forward-looking adjustments now, so as to be ready to ride on the wave of growth when the region eventually recovers.
4. The CSC has critically re-examined Singapore's competitiveness in the light of these major changes in the external environment. This Report summarises the CSC's assessment and presents its recommendations in three parts. Part One focuses on immediate actions. Part Two looks beyond the crisis and proposes strategies to position Singapore for the eventual recovery. Part Three contains the detailed sectoral plans.

REGIONAL ECONOMIC CRISIS

Impact on the Singapore Economy

5. Despite sound economic fundamentals, Singapore is not spared from the contagion. Economic growth has slowed from 7.8 % in 1997 to 6.2 % and 1.8 % respectively in the first and second quarter of 1998. Third quarter growth was -0.7 %. On a quarter-on-quarter basis, the economy has been shrinking since the second quarter. But for the whole of 1998, Singapore's GDP growth is still expected to be between 0.5-1.0 %.

6. The crisis has affected different sectors and companies unevenly. Hub-services with large regional exposures like commerce, tourism, transport and financial services have been badly hit. But companies with markets in the US and EU have been less affected.

7. The weak regional markets have significantly affected our exports. However, although Asia accounts for a large share of Singapore's exports, a significant part of this is made up of multinational corporations (MNCs) using the region as a production network to service their home markets. This has helped to cushion the slowdown in regional demand. The key to our near-term export performance is whether the US and EU markets will remain healthy.

Strategic Response to the Crisis

8. The regional economic crisis presents us both threats and opportunities. **Singapore must adopt effective strategies to deal with the crisis, and at the same time leverage on the emerging opportunities.**

9. The primary cause of Singapore's current economic slowdown is the sharp fall in external demand rather than fundamental problems intrinsic to our domestic economy. However, the changed landscape has eroded our competitiveness. We need to adjust both policies and costs to adapt to the new situation.

10. Sustained growth can only come about with the recovery of the regional economies and increased global demand. Given Singapore's small size and heavy dependence on global export markets, measures to stimulate domestic demand are unlikely to be effective.

11. Nor does the CSC recommend competitive depreciation of the Singapore dollar as the means to restore competitiveness. The Singapore dollar has depreciated by less than some other regional currencies, while our domestic interest rates are the lowest in the region. This reflects market confidence that our economy is fundamentally sound, and does not share the problems of the other economies. MAS's policy of managing the exchange rate against a basket of currencies, with the objective of maintaining price stability, is therefore correct. Instead, the CSC recommends the following strategies.

12. First, we need to **reduce our business costs, to help viable companies tide over the crisis and minimise unemployment.** The significant currency re-alignments have affected our cost competitiveness. We should take prompt measures to reduce business costs directly, including wage costs, to restore our position.

13. Second, we need **to ensure that the framework for economic activity continues to function effectively.** The financial system must remain strong and sound. Companies must continue to have access to working capital to import components, produce and meet demand orders.

14. Third, we need to **maintain investor confidence**. Foreign and domestic investments determine the level of business activity. We should accept and face up to the stark challenges of the crisis, but not turn overly pessimistic and bring about an unnecessarily sharp economic contraction by our own attitudes and actions.

15. Fourth, we should **step up capability-building and economic restructuring** to make our economy even more productive. Singapore should use this window of opportunity to upgrade our capabilities to keep ahead of competition and remain attractive to investors.

16. Fifth, **we need to further expand our trade with growth markets in the developed countries and seek out new markets beyond the region**. We should actively help local companies in their market diversification efforts.

17. Sixth, we should **leverage on market opportunities in regional economies to form strategic partnerships**. Singapore companies should actively scout for opportunities in the region to form strategic business partnerships to spur business recovery and growth.

Specific Measures To Deal With The Crisis

18. To carry out these strategies, the CSC recommends the following specific measures to deal with the immediate challenges posed by the regional crisis. In view of urgency, some of the measures have already been discussed with the Government and the CSC is pleased to note their speedy implementation. In June 1998, the CSC had recommended a package of off-budget cost-cutting and spending measures amounting to \$2 billion, which the Government accepted and implemented.

19. **Cost/tax cutting package**. The CSC notes that our wage competitiveness has deteriorated significantly. Our relative unit labour cost (RULC), compared to our competitors, has been rising gradually but steadily over the years. The sharp depreciation of the other regional currencies against the Singapore dollar since July 1997 has worsened our competitiveness further. When the region was prospering, our rising RULC was a concern but not a critical problem. Now economic conditions have totally changed and we are competing for a shrinking economic pie. We should tackle this weakness decisively by lowering our business costs, including wages.

20. In this respect, the CSC recommends that the Government promptly implement a comprehensive and significant package of cost/tax cutting measures, to help companies compete during this difficult period. The package should include the following components:

- a. Reduce total wage costs (including contributions to the Central Provident Fund (CPF)) by 15 % from 1997 level to bring our wage competitiveness, as measured by RULC, back to the level of 1994. To achieve this, the employers' CPF contribution rate should be reduced by 10 % points. The rest of the cost reduction should be achieved through the flexi-wage scheme, by a reduction in the annual

and monthly variable components of wages. The public sector should take the lead in this;

- b. Reduce the levy for both skilled and unskilled foreign workers in the manufacturing and services sectors by \$50-\$100 per month. For the construction sector, a similar cut should be considered for skilled foreign workers;
- c. Reduce Jurong Town Corporation (JTC) and Housing Development Board (HDB) land and factory rentals significantly to reflect current market conditions. This should bring our land and factory rentals back to the levels of the early 1990s. JTC should also lower the 7.6 % maximum annual rental escalation rate imposed on its lessees;
- d. Reduce charges for services like electricity, telecommunications (e.g. business-related services such as international direct dial (IDD), international and local leased circuits, public data services), and port services, where this is economically justified;
- e. In line with the shift from ownership to usage restraint measures (e.g. electronic road pricing (ERP)) for traffic management, to lower vehicle-related overhead costs, including customs duty and petrol/diesel duty;
- f. Extend the 55 % property tax rebate and the suspension of stamp duties on share transactions; and
- g. Reduce, or extend rebates for, Government taxes like corporate and personal income taxes in FY1999.

21. The CSC proposes that the package should reduce business costs by about \$10 billion a year. This will be equivalent to about 7 % of Singapore's GDP. Using companies in the electronics sector as an indication, the CSC estimates that this will reduce business costs by about 15 %.

22. **Access to working capital.** While bank lending remains a commercial decision, the Government should enhance its Local Enterprise Finance Scheme (LEFS) to enable viable local companies to have continued access to funds. The CSC notes that interest rates have eased in recent months which will help businesses' cashflow. It is also pleased to note that the Government has already acted promptly on the following to enhance LEFS:

- a. Raising the eligibility criteria cap on fixed asset investment (FAI) from \$30 million to \$50 million;
- b. Widening the coverage to include more companies like manufacturing-related services companies; and
- c. Widening the coverage to include long-term loan financing for used machinery.

23. **Capabilities building.** The CSC notes that the Government has already taken several measures in this area (e.g. enhancing the Singapore One Network for Everyone (Singapore ONE) and building Jurong Island). It recommends other longer-term measures to improve the economy's capabilities as detailed in Part Two of the Report. It further recommends the following steps to help workers stay relevant:

- a. Re-position the Skills Development Fund (SDF) to encourage employers to train their workers in certifiable skills;
- b. Establish a National Skills Recognition System to promote skills upgrading; and
- c. Elevate the Skills Redevelopment Programme (SRP) to a national programme with greater support and funding from both Government and employers.

24. **Market diversification.** To help local companies explore and penetrate new markets to offset the fall in regional demand, we should:

- a. Enhance our trade development incentives to enable companies to undertake overseas investments, establish overseas marketing offices, and undertake international marketing programmes like franchising, direct marketing, licensing and branding; and
- b. Increase the funding for companies participating in trade missions and approved fairs.

25. **Investment promotion.** To retain and attract more businesses to Singapore, we should:

- a. Provide more funding to promotional agencies to step up their international marketing and promotion to attract investors, traders, exhibitors and tourists to Singapore; and
- b. Offer a total incentive package to attract foreign companies to undertake the entire value chain of key services in Singapore (e.g. trading, transport and logistics, marketing services, electronic commerce (e-commerce) and regional headquarters (HQs)).

LONGER-TERM GLOBAL TRENDS

26. Even as we implement immediate measures to address the regional economic crisis, we should look beyond it to plan and prepare for the longer term. We should take concrete steps now to build up our capabilities to strengthen our competitiveness in the next millennium.

27. The longer-term driving forces of further economic liberalisation, continuing globalisation and rapid technological improvements will have a dramatic impact on trade and investment flows, production patterns and financial markets across the globe. There is also a fundamental shift towards a knowledge economy. These global trends will influence the competitive strategies that Singapore should adopt, and the way we make a living as we move into the 21st century. Singapore should position itself to take advantage of these trends.

STRATEGIES FOR FUTURE COMPETITIVENESS

Vision – A Competitive, Knowledge Economy

28. The CSC's vision is for Singapore to become an advanced and globally competitive knowledge economy within the next decade, with manufacturing and services as its twin engines of growth.

29. We should be a knowledge economy where the basis for competitiveness will be the capabilities and intellectual capital to absorb, process and apply knowledge. We should have a strong technological capability and a vibrant entrepreneurial culture that thrives on creativity, nimbleness and good business sense. To develop into a knowledge economy, Singapore should be an open cosmopolitan society, attractive to global talent and connected with other global knowledge nodes. There should be a critical mass of Singaporeans who are risk-taking entrepreneurs, innovators and arbitrageurs. Together with the global talent, they will move Singapore ahead in the Information Age.

30. Manufacturing should remain an integral component of the Singapore economy, with capabilities in the entire manufacturing value chain beyond production, from research and development (R&D) and design to marketing and sales. At the same time, Singapore should develop into the premier services hub in Asia with a global orientation, with strong competencies in both its existing hub services as well as new, high growth services.

31. Singapore should strengthen its successful partnership with foreign multinational corporations, build up domestic capabilities and forge strategic linkages with the region. Successful local enterprises should be nurtured into world-class companies (WCCs). The workforce should be cost-competitive, motivated and highly productive, with world-class capabilities in business management, technology, innovation, production and services, and international market development.

32. To realise this vision, we require a quantum jump in capabilities while managing our cost competitiveness. CSC recommends eight key strategies to support the realisation of this vision.

(1) Manufacturing and Services as Twin Engines

33. **Manufacturing and services should be promoted as the twin engines of growth for the Singapore economy.** This strategy helps to diversify our dependence beyond any single industry, sector or market, thereby reducing vulnerability and providing a broader economic base.

Vision and Strategies for Manufacturing

34. **The CSC notes that the Government remains fully committed to supporting a vibrant and competitive manufacturing sector in Singapore. It endorses this strategy.**

35. Manufacturing will continue to be an integral part of the Singapore economy. However, Singapore cannot be purely a production base. **It should position itself as a critical hub where MNCs and local enterprises (LEs) use Singapore as a base to manufacture high value-added products and provide manufacturing related services (including HQ services) to companies here and in the region.** We have to move upstream in the value chain to do R&D and design, as well as downstream to logistics, marketing and sales.

Vision and Strategies for Services

36. Complementing the manufacturing sector, we should **build Singapore into the premier services hub in Asia with a global orientation.** We must **grow our existing hub services** where we have achieved international repute (e.g. financial services, international trading, transport and logistics, exhibition management and tourism) **and develop new high growth hub services** (e.g. healthcare, education, media, communications and information technology (IT) services, e-commerce and direct marketing).

37. In particular, we should develop financial services to position Singapore as Asia's premier centre for management and distribution of financial services. This will entail strengthening our position as the home of the Asian dollar market and our traditional leadership in foreign exchange and derivatives trading in the region, as well as building new capabilities in fund management, debt and issuance distribution, and venture capital.

38. To realise this vision, **the overall policy and regulatory framework for services needs to be reviewed to develop a new services paradigm that proactively promotes development of the sector.** The CSC recommends that the Government should appoint a lead economic promotion agency to champion the development of each service industry, while garnering the support from other government agencies in a total Singapore Inc. approach. We also need to ensure that sufficient economic resources (e.g. land and labour) are made available at internationally competitive prices to support the growth of the services sector.

(2) Strengthening the External Wing

39. The economic crisis has substantially altered the regional economic landscape and inflicted heavy costs on companies with regional exposure. **Notwithstanding these short-term difficulties, the CSC's assessment is that the external wing remains strategically important for Singapore's long-term economic growth and development.** The original aims of capitalising on growing external markets as a complementary source of growth to the domestic economy, and tapping on abundant factors of production overseas in a mutually beneficial partnership remain valid. **However, the external wing should be strengthened by incorporating a global dimension to allow diversification so that growth is maintained even if one region is weak.** Singapore companies need to be globally competitive in order to succeed even in developed markets further afield.

(3) Building World-Class Companies

40. Singapore's economic growth has largely been driven by foreign MNCs. MNCs will remain a crucial component of the Singapore economy. **However, to be globally competitive, we need to also build up a stable of our own world-class companies (WCCs) with core competencies which can compete effectively in the global economy.** This will increase the depth of our corporate profile and broaden the economic base for more sustained and resilient growth.

41. Entrepreneurial companies should strive to become WCC. At the same time, we should **kick-start the process of building WCC by leveraging on existing Government-linked companies (GLCs).** Given their size, financial depth, core capabilities and experience, GLCs have good potential to be leaders in the development of indigenous technological capabilities and to spearhead our investments overseas to help grow our external wing.

(4) Strengthening Our Base of Small & Medium Local Enterprises

42. We need to strengthen our base of small and medium LEs to be more resilient in the face of slower growth and keener competition. We should ensure that LEs are efficient so that our limited economic resources are well utilised. **We should nurture our LEs and enable them to move up the ladder to realise their maximum potential. This will help them to remain relevant as important strategic partners to MNCs and GLCs, while some can grow to become Singapore MNCs in their own right.**

(5) Human and Intellectual Capital As a Key Competitive Edge

43. With increasing globalisation, greater competition and the shift towards a knowledge economy, human and intellectual capital has become the key competitive factor. There is a need to upgrade the capabilities and optimise the contributions of both the local and foreign workforce in Singapore. **The vision is to develop a world class workforce in the 21st century. This means having a cost-competitive workforce with outstanding capabilities.**

44. Our strategies toward human and intellectual capital development must be comprehensive, from nurturing the skills, creativity and talent at all levels in the workforce to the development of entrepreneurship. Our dual approach is to maximise the potential of the domestic workforce and enhance the attractiveness of Singapore to foreign talent.

45. One key area is life-long learning for life-long employability. To maximise the potential of the domestic workforce and to minimise the threat of structural unemployment, we should continue to refine and strengthen our national framework and system for continuing education and training (CET). We need to inculcate the habit of life-long learning in all our workers and put in place a learning infrastructure with enhanced capabilities and capacity for CET.

46. Another key focus is to instil a greater sense of pride, professionalism and commitment in our workforce. To attract, motivate and retain staff in organisations, the CSC recommends that Government review its tax treatment on employee stock options (ESOPs) to make these schemes more effective.

47. We must also **continue to promote a harmonious industrial relations climate through close tripartite co-operation between the Government, employers and trade unions**. Close labour management co-operation, provides a stable environment for businesses to thrive. This is particularly important during an economic downturn.

(6) Leveraging On Science, Technology & Innovation

48. Another key capability is the ability to leverage on science, technology and innovation effectively as competitive tools. **Development of these capabilities will enable us to upgrade our existing industry and business clusters, and shift to activities with higher innovation and technology content**. It will enable us to build core capabilities to position Singapore to take advantage of new emerging clusters. It also helps to foster greater innovation and technopreneurship attributes in people. The CSC notes that the Government is building a Science Hub as part of its efforts to foster entrepreneurial high-tech businesses.

49. IT is another key technology which we need to leverage on. It will play an increasingly important role as a business enabler for more efficient access, processing and use of information. We should **build on the IT2000 plan to position Singapore as a global IT hub in the Asia-Pacific region**. The CSC is pleased to note that the Government has already set up various infrastructure to establish Singapore as an e-commerce hub.

(7) Optimising Resource Management

50. To optimise resource management, our strategy should be to adopt the dual approach of promoting more supply (e.g. seeking alternative sources) as well as efficient usage (e.g. applying resource saving techniques such as technology applications and restructuring work

processes, and educating users). In addition, market pricing should be applied as far as possible to optimise the allocation and use of scarce resources.

51. We must use land more efficiently, and ensure an adequate supply of land that is competitively priced and equipped with world-class infrastructure. Water must be better managed as it is a strategic economic resource.

(8) Government as Business Facilitator

52. The regional economic crisis has highlighted the importance of Government's role in economic and financial management. In particular, it reaffirmed the importance of correct macroeconomic policies for continued competitiveness, stability and resilient growth. These include rational and predictable economic policies, a prudent fiscal stance, high standards of prudential regulation and supervision, transparent legal system, strong corporate governance and political stability. **The Government should continue to play an active role to support and facilitate the private sector through provision of sound economic policies and a regulatory environment that is conducive to the conduct of business.**

53. The contagion effect of the regional turmoil also highlighted the challenges posed by open capital markets. However, the CSC believes that we should not regress to restricting capital markets. Instead, Singapore should continue to reap the benefits of open capital markets, while ensuring that supervision structures and systems are improved to keep pace with, and support, the liberalisation process.

CONCLUSION

54. The regional economic crisis has created serious immediate challenges, as well as an added urgent dimension to our efforts to transit to a developed knowledge economy. Regional competitors will emerge leaner, fitter and more cost competitive after they have restructured their economies. This means that we have to accelerate the upgrading of our economy so that we are even more productive and competitive, and be ready to soar when the region recovers.

55. This CSC has identified strategies to strengthen Singapore's competitive position to meet the challenges and capitalise on the opportunities in both the immediate and longer term. Manufacturing and services will remain our twin engines of growth, but we will develop capabilities in more knowledge-intensive parts of the value chain. While we must continue to attract MNCs and root them here, we need to also develop indigenous WCCs and nurture our base of LEs. We must enhance our human resources and leverage on science, technology and innovation. At the same time, our resources should be optimally allocated and utilised to manage cost pressures and to maximise their economic contribution. Government policies should remain pro-business, enabling the private sector to thrive and drive the economy.

56. The challenge for us to remain competitive and vibrant in the next century is formidable. But Singapore has achieved spectacular success against great odds in the last 30 years. We are now far more endowed than in the 1960s. Despite the current economic crisis, there is no reason for Singaporeans to be despondent. The CSC is confident that we have the resources, talents and strategies to ride out the crisis and to emerge stronger.

57. The proposed strategies would have to be fine-tuned in the light of an ever-changing competitive landscape. It is within our capabilities to make Singapore the first developed economy in the tropics within the next 10 years. Singaporeans have to stay cohesive and jointly make the effort to realise this vision.